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Should Banks Reduce the Interest Paid Depositors?

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If Rates on Savings Deposits Were Reduced It Would Expose Savings Banks to a General Onslaught from Competing Financial Institutions. Many Banks Have Millions in Savings Deposits but No Savings Loans. Begin with Commercial Depositors.

ONE of the easiest ways to meet the problem of the diminishing margin of bank earnings would be to reduce the rate of interest paid to depositors, but, although the easiest, it might prove the most inopportune, for if interest rates on savings deposits were reduced at the present time, the reduction would seriously affect the future growth of savings deposits.

A reduction in interest rates would challenge every savings depositor either to accept a lower rate of interest in the future or transfer his savings to some financial institution not affected by the reduction. Such a challenge would find savings depositors in the best position they have been in for years to protest against the reduction. To-day, as never before, they would find a cordial welcome awaiting them at any one of the many thousands of financial institutions catering to the saver's business, although these institutions are not themselves banks.

Tempted by Higher Rates

THERE are in the United States nearly fifty million savings bank depositors. Millions of them, tempted by the higher rates of interest, have already withdrawn a part or all of their savings from the banks and have deposited or invested them elsewhere at higher rates. I am firmly convinced that there are added millions of savings depositors who at this time have under consideration making some kind of a change in order to secure a higher income than they are now receiving on their savings accounts. Unquestionably, a reduction of interest on savings deposits at this time would force savers to make an immediate decision on this point, and many would decide in favor of accepting a higher rate of interest elsewhere instead of acceding to a reduction of interest on their savings accounts.

Whether or not a reduction in the rate of interest is justified from the banker's standpoint is of no concern to the savings bank depositor. It is whether or not it is justified in the light of the information the depositor has been absorbing during recent years. Based on what many of our banks have announced regarding their business, banks are prosperous, and, if this is true, reduction of interest paid is not justified. Nor would it be easy to justify a reduction in interest as long as bank stocks are skyrocketing on the market in response to the general belief that our banks are earning large dividends. Nor could a reduction in interest be justified in view of the columns upon columns of publicity which have appeared all over this country calling attention to the fact that banks were bulging with money, for to ninety-nine out of every one hundred savers a surplus of money signifies prosperity, although its true significance may be lower bank income through unemployed capital. Without doubt, our banks would experience great difficulty in justifying a reduction of interest when every depositor is besieged to place his savings at a rate of interest considerably higher than that which his bank is now paying him.

Would Invite a Raid

A LESSENING of the rate of interest would expose our savings business to a general onslaught from competing financial institutions eager to capitalize just such an opportunity for winning away from our banks millions of savings depositors who would be made dissatisfied by a diminution of income from their savings. It would be like taking the armor plate off our battleships and exposing them to the enemy's fire. Thousands of professional investors and financial organizations of different kinds would ask for no better opportunity to divide the savings business of this country than for banks to reduce interest rates under present conditions. Propagandists by the hundreds, literature by the tons, would be used to paint pictures of the greed of rich and prosperous banks engaged in acquiring great wealth by a process of paying as little in interest on deposits as possible and still holding their business.

Instead of making our savings business less attractive, it seems to me that for the present at least it is desirable that it be made more attractive, for gradually it is being undermined by a competition so keen that many savers, as I have already stated, are today bewildered by the number of invitations they receive almost daily to invest their savings at from 5 per cent to 10 per

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The Problem of Interest Rates

By J. R. NUTT
President of The Union Trust Company, Cleveland

Discussed from Standpoint of a Manufacturer. What Latter Would Do the Course for the Banker in Present Circumstances. First, Reduce Operating Costs. Second, Buy Raw Material Cheaper. Possibilities of Minimum Balance Rule Not Exhausted.

THE narrowing margins of profit obtaining in the banking field generally have given rise to considerable discussion as to the necessity of reducing interest rates, particularly those paid upon commercial accounts.

A discussion of the problem from a manufacturer's standpoint makes this necessity self-evident.

Let us consider the bank as a factory, the raw material of which is deposits and the finished product of which is credit. We buy our material from the public, and we pay for it partly by service and partly by interest. We sell our credit, in turn, to the public and receive payment in the form of interest.

The task of a commercial bank is to mobilize credit so that it will be available as needed. The bank's credit and resources are thus being used to keep business and industry in operation, that wages may be paid and materials purchased. What is happening at the present time is that the selling price of our finished product—namely, credit—is declining, whereas our operating costs, being quite inflexible, are remaining practically stationary at comparatively high levels and the interest rates which we pay to the public are still as high as they were a number of years ago. The result is an inevitable shrinkage of operating margins.

Two Things to Do

ANY manufacturer whose product was declining in price to a point which threatened profit margins would immediately endeavor to do two things:

First—To reduce operating costs.

Second—To buy raw material more cheaply.

Now let us consider the bank from the same angle.

We are making every effort to reduce operating expenses to a minimum, and while efforts to this end will be continued, the future possibilities here are limited without curtailing desirable services.

First, we may go farther than we have done to date in the direction of the minimum balance rule in checking accounts. In Cleveland at the present time we impose a service charge of $1 a month upon accounts whose average balances are under $100. Experience proves this does not cover actual cost, and I think this should be increased to at least $200. Furthermore, as it stands at the present time, our minimum balance rule is not being adhered to with sufficient strictness. In too many instances we waive the minimum balance rule—for example, in the case of a customer who has a substantial savings deposit. It seems to me that margins on the savings side of banking are small enough as it is, and should not be expected to carry the burden of losses in operation on the checking side. In short, our service charges should be based in each case upon the average balance of the checking account in question, and should not be influenced or nullified by considerations outside the department.

Not to Be Feared

"BANKS apparently are fearful of taking this step because of a possible unfavorable reaction which may ensue among their depositors. My own opinion is that it would cause much less dissatisfaction than is anticipated. I believe this to be the case because I do not think that the interest which a bank pays on checking accounts is a matter of primary importance to the average commercial customer."—J. R. NUTT.

The public generally has been educated to believe that it is agreeable and profitable to a bank for a customer to deposit, say, $15 on the first of the month in a savings account, leave it there for perhaps three or four weeks and then withdraw it, closing out the account. Although in such case the bank pays no interest, the transaction still represents a loss to the bank in the form of the cost of the passbook, the ledger card, and whatever time and effort has been spent in setting up the record and handling the account. While these items are relatively small per account, they swell to a large total if the year's turnover of small accounts of short duration is taken into consideration. In Cleveland we are considering the advisability of making a service charge of fifty cents in the case of small new accounts which are closed out a few days after they are opened, and which now represent an operating loss of at least that amount to the bank.

We may also, if necessary, cut down, or perhaps charge for, some of the services to the public which banks have been performing gratuitously in their effort to attract new depositors.

Paying Too Much for Raw Material

SO much for reducing operating costs. Now as to the buying of our raw material more cheaply.

It is especially on the commercial side that we are paying too much for our raw material. In Cleveland at present it is the custom to pay interest on commercial accounts carrying substantial balances. Under present conditions it is extremely difficult for a bank to realize any profit on many of these accounts, because many of them are so active as to make it impossible to loan more than about 10 per cent of the average balance, and, further, because of the large proportion of many balances which is made up of checks in the process of collection.

The law requires a bank to deposit in the Federal Reserve Bank, without any earning whatever, an amount of money equal to 10 per cent of the ledger balances, whether the funds are available or not. It seems probable that in the near future it will be necessary to change the basis upon which interest has heretofore been paid on commercial accounts, and require of all customers a substantially larger free balance.

Banks apparently are fearful of taking this step because of a possible unfavorable reaction which may ensue among their depositors. My own opinion is that it would cause much less dissatisfaction than is anticipated. I believe this to be the case because I do not think that the interest which a bank pays on checking accounts is a matter of primary importance to the average commercial customer.

A checking account is primarily a service which is made up of the convenience of a checkbook and the ability to deposit or withdraw at any time and in any amount. Banks alone are equipped to give this particular type of service—a service which is an absolute necessity in our present day and age. The interest paid is, except in certain cases, a secondary consideration, and I be-

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The Downward Trend of Interest

By DAVID FRIDAY

Decline Since 1920 Due to Large Growth In the Supply of Capital Coupled With the Increase In Our Industrial Output. Heavy Foreign Borrowings and the Volume of Construction and Automobile Buying Have Created Unprecedented Demand for Funds.

THE trend of interest rates for capital invested in bonds has been steadily downward since 1920, with only one interruption of importance—in the latter part of 1922 and the first part of 1923, when they rose for about six months.

The forty bonds which compose the Dow-Jones index rose fourteen points from their average price of 1920 to the average of 1922. They fell about three points in the following year; then rose once more, until at the close of last year they were again fourteen points above the summer of 1923. Bonds which could be bought for 60 per cent of par in 1920 and 1921 were selling for approximately 86 at the end of 1927. This was a rise of 26 points.

The rate of return which good bonds yielded had declined from 5.8 per cent to 4.2, in the case of railroads; from 6 per cent to 4.8 for industrials; from 6.75 to 4.75 for utilities; and from 5 per cent to 3.90 for municipals. This is an average decline of approximately one and one-half per cent in the interest earned on money invested.

The total net earnings of all the member banks of the Federal Reserve System amount to only 1.4 per cent of the earning assets of those institutions. It needs no argument to prove that the rate of interest is a matter of supreme importance to every person engaged in the management of a banking institution. All reporting banks in the United States have a combined total of about eighteen billion dollars in security investments. This constitutes just about one-third of their entire earning assets.

The Direction

"IT is a safe prediction that the total demand for capital in the next half-decade will not increase as rapidly as does the supply of our investment funds.

"There have been periods in the history of this country when good railroad and industrial stocks sold at a price which capitalized their dividends at 4 per cent and their earnings at 6 or 7 per cent. High-grade bonds sold on a 3½ per cent basis; and good government securities yielded even less. Toward such an era our industrial and financial process is carrying us.

Decline in Prices Expected

AFTER the sharp rise in bond prices between the summer of 1920 and the autumn of 1922, many students of finance expected a decline, or at least a stabilization somewhere just below the high level reached at that time. It seemed to them that the low interest rates then existing were the result of the drastic depression of 1921. Business was stagnant, corporate profits for all corporations of the country combined had fallen to nothing, and the net result of operations that year was a loss. Enterprise was at a low ebb, and foreign borrowers wanted capital but were unable to offer security which could tempt the American lender. Bank loans had been deflated to a minimum. At the same time gold imports had been large, and through their use the reserves of the Federal Reserve banks had been increased from the low figure of two billion dollars to more than three billion dollars in two years, while the rediscounts of the member banks had declined by two billion dollars.

Such an increase and broadening in the basis of our credit structure, at the same time that business depression at home, and unsettled conditions abroad were reducing the demand for capital and credit to a minimum, naturally made for low interest rates. The rise in bond prices was, therefore, not difficult to understand. There were those who had denied the likelihood of a pronounced decline in interest rates, even in the summer of 1921. An address before the Michigan State Bankers Association in June of that year vouchsafed the prediction that within three years from that time all the Liberty bonds would be at par or above. That prophecy was met with skepticism by some and with scorn by others. The bonds actually reached par within twelve months after the prediction was made. They fell slightly afterwards, but well before the three years had expired they were above par.

The conditions as regards gold inflow and business depression which prevailed during 1921 and 1922 were so exceptional that many people believed that low interest rates and high bond prices were only a passing phenomenon which would disappear with the revival of business and the increased demand for credit which would accompany it. Surely gold exports, when they occurred, would bring about a rise in interest rates and a fall in bond prices.

Commodity prices began rising in the early summer of 1922, and by autumn they were twenty points up. Most people believed that this rise would go another twenty points before it exhausted itself. For a time it seemed as though these forces would bring bond prices down. But before securities had lost one-third of their gain of 1921 and 1922, they turned and began rising once more. During the next four years their course was steadily upward, with only inconsequential interruptions.

The interest rate has, therefore, fallen during a four-year period which has been marked by the business revival of 1925 and 1926, by two years of business recession which occurred in 1924 and again in 1927, and throughout two periods in which gold has been exported in considerable quantities. It is not an economic phenomenon which can be accounted for by passing phases of the business cycle. Bonds have continued to rise throughout periods of active business as well as in times when production and trade were declining. Neither gold exports nor gold imports interrupted the rise once it had begun in January, 1924.

The forces which drove the price of bonds up and lowered the rate of interest throughout the last four years lie deeper than temporary credit conditions or than the passing phases of the business cycle. Will these forces continue to operate during the next three to five years? If so, the Liberty bonds may well sell on a 3 per cent basis before the end of 1930. High-grade railroad bonds will once more be selling on a 3½ per cent basis, as they did in 1902, and industrial and public utility bonds may be yielding less than 4 per cent.

The beginning of wisdom in discussing the causes of variations in interest rates is the realization that interest is a price. It is paid for the use of capital, and since it is a price the causes of its fluctuations can be grouped for purposes of analysis into those which affect the supply of capital and those which determine the demand. Nothing can change the prevailing rate unless it enters by one of these two doors of supply and demand.

A Flood of New Bonds

IT is certain that the decline in interest rates has been brought about by an increase in the supply of funds rather than a

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The Diary of a Trust Officer

A Little Foreigner is the Company's Best Advertisement. The Close of an Estate in Which the Quality of Self-Denial Was Carried Too Far. Why Mrs. Dunn Withdrew Her Will and Is Making a New One Under Which Her Daughter Fares Well.

March 5.

UNCLE JOHN came to our office today to receive his monthly allowance. His wife died a few years ago leaving her entire estate to her surviving husband.

Uncle John, as he was intimately known to all his friends, is a typical little foreigner. He can neither read nor write the English language nor his native tongue. He has a keen sense of wit and humor and a great deal of common sense. His wife was the business side of the matrimonial partnership, and it was through her **judgment and efforts** that their estate was accumulated.

In some way he had become acquainted with one of our officers, had formed a liking for him and trusted him, so when it became necessary to have his wife's estate probated he came to us and said he knew nothing about business. "I want your company to take charge of everything and handle it for me," he said.

Before the administration was completed many people tried to influence Uncle John into taking the management of his property affairs away from the trust company and handling them himself. These people had designs upon his property. A number of propositions were made to him by various people, which if acted upon would have resulted in a loss of a material part of his estate. Fortunately, to all of these proposals he turned a deaf ear.

After the administration of the estate was closed and the property turned over to the husband and placed in his name he came to us and executed a declaration of trust by which all of his property was placed in trust for his use and benefit and out of the income therefrom he is paid an amount each month, sufficiently large to take care of all of his needs, which are not many, and to allow him to enjoy life in his own way.

He has also executed a will which will provide for the final disposition of this property after his death. As he has no near relatives most of his estate will go to charitable and benevolent institutions. Uncle John is happy in the thought that he is receiving the protection and care of the trust company. He never fails to express his gratitude for this service when he comes to our office, and he never fails to tell his friends about the way he is being taken care of. Although his estate is not large, I believe that he is the best advertising medium that we have for our institution. Nothing pleases Uncle John more than the little presents that he receives from our company at Christmas, New Year's and the anniversary of his birth. We try to make his association with us as human as possible. Uncle John is enjoying the evening of his life in the full assurance that he will be well taken care of until the end of his days.

The self-denials of a lifetime

March 6.

THE estate of Martha B. Robinson was finally closed today. Mrs. Robinson was the sole beneficiary under her husband's will. Mr. Robinson was always considered a very good business man—frugal, saving, temperate, economical and methodical. His business was his pleasure, and he rather boasted that he had not taken a vacation in many years.

Mrs. Robinson was of the same temperment. They had no children, and their entire lives were spent in accumulating for a rainy day. Mr. Robinson's estate amounted to approximately $200,000. After his death Mrs. Robinson became even more parsimonious with herself and would not allow herself any of the ordinary luxuries of life. On a number of occasions we suggested that she purchase an automobile for her own use and that she invest a little of her funds in other ways that would bring her some comfort and pleasure. But the habits of a lifetime could not be overcome, although her estate was ample to provide for not only the necessities of life, but all of the ordinary conveniences that a lady in her station should have. She consistently refused to spend any of her money in this way.

In due course she executed a will, leaving her estate to a number of distant relatives, some friends of former years, and made a number of bequests to people whom she had never known during her lifetime. Upon her death, I, as Trust Officer, seemed to be her nearest friend, so the duty devolved upon me of selecting her casket and even her shroud. There were no relatives near enough to perform this last sacred function.

Her estate was finally distributed to those in whom neither she nor her husband had had a direct interest. The savings, acccumulations and self-denials of a lifetime were thus turned over to a number of people to whom her name was but a memory. I have often thought it would have been much better for this couple to have enjoyed at least a portion of the things that help to make life worth while, rather than to have accumulated for the rainy day that never came.

A Bundle of Bonds

March 7.

MRS. WILSON left a check in our office today for $1,000 which was the final payment on a crypt for her husband in the mausoleum in the local cemetery. I had known him a long time, and I remembered when he was a very active business man who took delight in trading property of all kinds. When he entered upon negotiations he could hardly eat or sleep until he had finally closed the deal and usually these transactions were very profitable to him.

During his later years he became quite

nervous and as a good many men do, he resorted to stimulants to brace him up. These indulgences became more frequent until just before his death two years ago, they seemed to affect his mental condition.

One morning he came into our office in a flurry—pulled a large bundle out of his pocket and said, "Mr. Jones, I want you to keep these for me as I am on a trade and may want to use them."

Upon opening the bundle I found it contained about $40,000 in Liberty bonds.

Wilson had been carrying this bundle for some days unkown to his wife or family. Just what prompted him to come to us that morning we do not know. A short time after he left, Mrs. Wilson came in very much excited and told us she had learned that her husband was carrying around on his person a large amount of Liberty bonds, and she was considerably worried to know what might happen to him and the bonds. We told her that the bonds now were deposited safely in our vaults.

This information was a great relief to Mrs. Wilson and she asked us to try to protect her husband against a profligate disposition of these bonds. Having known both Mr. and Mrs. Wilson a great many years we made it our first duty to protect them in this instance. Just as soon as it was possible, we had Mr. Wilson enter a joint contract agreement with his wife by which these bonds were not to be disposed of without the consent of each other. Then we assisted Mrs. Wilson in finding a safe and satisfactory investment for the proceeds of the bonds, which investment became a part of Mr. Wilson's estate upon his death and passed to his wife under his will. She is now enjoying the income and benefits that are being derived from the investment made from the proceeds of the bonds he had been carrying around in his pocket.

Had Mr. Wilson fallen into the hands of unscrupulous persons, in his then mental condition, he might have made such disposition of these bonds that would have deprived his wife and family of the benefit thereof. Mrs. Wilson never ceases to be grateful for the service rendered to her and her family by the trust company.

March 8.

MRS. DUNN came in today and withdrew her last will and testament from our files. In itself this was not unusual, but the circumstances surrounding the execution of the will were quite unusual.

We remember his birthday

Mrs. Dunn had a very beautiful daughter—well educated, vivacious, and a lady—who belonged to the younger social set of the city. Her mother's whole heart and life was wrapped up in Madeline. It seems that Madeline had met a young man during the social activities of the season whom she liked very much—a courtship followed, all of which was unknown to the mother. Apparently this young man was not the type of a man that Mrs. Dunn would desire her daughter to marry. Madeline, the daughter, apparently fell violently in love, although she knew that her mother would not approve of her choice. Things progressed very rapidly, and one night they eloped and were married.

When Mrs. Dunn learned of the elopement she was heartbroken. The information she had regarding the young man was not to her liking and she feared for her daughter's future welfare.

One morning she came to us, and told us the story in a simple, straightforward way. She wished to execute a will; under the terms of which she provided that her daughter was not to participate in her estate in any degree as long as she remained the wife of this young man.

Should Madeline at any time in the future become a widow or be divorced then and in that event she was to succeed to her estate.

The mother's fears were well grounded. After a few months without provocation the young husband abandoned his wife who returned to her mother and in due course a divorce was obtained. These facts were all related to us this morning when Mrs. Dunn withdrew her will. She was happy because her daughter had awakened to the worthlessness of the man who had won her confidence so easily. The mother instinct knew that he was not a proper life partner for her child.

So a new will will be written which will properly care for the future of Madeline Dunn, and there will be no heartaches when that estate is settled.

Stable Money Likely

ACCORDING to the *Commerce Monthly* of the National Bank of Commerce, New York, the outlook is for a comparatively stable money market until late spring, after which time, barring gold exports, the effects of which might be offset by Federal Reserve Bank transactions, the usual seasonal relaxation in rates may be expected.

The statement of Roy A. Young, governor of the Federal Reserve Board, before the Senate Banking and Currency Committee on the subject of brokers' loans did much to clarify the confusion which had existed as to their significance. He expressed his disbelief that the use of credit for speculative purposes had withheld needed credit from agriculture, industry or commerce.

"Fears that shipments of gold to France in preparation for the pending stabilization of the franc might result in markedly higher money here are being dissipated as the facts of the situation are gradually being recognized," the *Commerce Monthly* says. "Undoubtedly, France has substantial holdings of earmarked gold in this country. The exact amount is unknown, but in so far as shipments are from this stock, they are without effect on the money market. If shipments abroad of non-earmarked gold eventually should be sufficient to cause a marked trend toward higher money here, the Federal Reserve banks would probably take measures to check such a tendency before it adversely affected business. Aside from domestic considerations, comparative stability of rates in this market is necessary as a part of our world cooperation, particularly with those countries which now are planning to reestablish their currencies on a gold basis. Any substantial advance in rates here would tend to drain gold from Europe, thereby making stabilization more difficult.

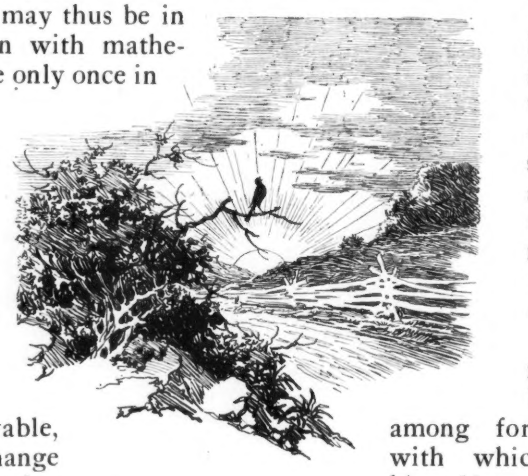
"The money market will be influenced by the very large operations of the United States Treasury recently, and the indications are for ease immediately. On the other side, however, is the fact that commercial demand for funds is now increasing at a healthy rate.

ORIENTATION IN BANKS

THE orientation of sacred edifices is an ancient and a beautiful practice.

"In the strict orientation of a church the central line of its apse points exactly to the rising of the sun on the day of the saint for whom the church is named."

Due to the rotation of the earth a cathedral may thus be in line with the sun with mathematical exactitude only once in a long period, but every man, even the weakest, may, if he will, squarely face the morning sun on every day that it is visible.



Once oriented an edifice is fixed and immovable, but man may change his outlook every day with profit and pleasure to himself and to all lives with which he comes in contact.

Just as he can turn his face to the morning sun and glory in the beauty and the promise of the new day, so all day long he can, if he will, so adjust himself as to find some new benefit from every combination of circumstances.

AMONG all the marvelous things of life and of nature nothing is more marvelous than this power the mind possesses of so adjusting and readjusting itself that some bit of benefit may be extracted from everything, some ray of sunshine may be caught and reflected among those with whom we associate.

What a wonderful world this might be if more attention were given to mental orientation and less to facial ornamentation—if we were less ready to be resigned to real or apparent evil, more determined to face the East of all circumstances.

The young man groping in books and among forms for means with which to advance himself to a place where he thinks he may draw more happiness out of life may find that happiness of which he dreams at hand, if he will but look for it.

THE older man who knew all about orientation long ago and who knows all about it now—if he had time to think about it—might lighten his burden and brighten the countenances of many about him if he adopted the practice of that simple habit which transfigures faces and pays dividends peculiar to itself.

Often we are poor in those things most desired because we overlook the obvious.

By JAMES E. CLARK.

On the Fringe of Finance

By W. F. WAMSLEY

The "High Pressure Salesman" Who Sells, With the Aid of the Telephone Book, Stocks of Fourth Grade or Worse Has Supplanted the Old-Time Bucket Shop. Five Thousand Now At the Game in New York Alone. They Keep Just Within the Law.

IF on some bright spring morning your desk telephone should ring and you should be informed that there is a long-distance call for you from New York, and you should answer this call and be informed by a pleasant voice that there is an opportunity of a lifetime in buying quickly X. Y. Z & Co. shares; that securities you now own may be taken in exchange for this stock, "which is on its way to $100," and that there should be no delay, since opportunity presses—

If this sequence of events develops, and if the call is repeated two or three times, and you receive through the mails handsomely embossed literature, also what purport to be market newspapers advising the purchase of standard securities, with similar advice about the X. Y. Z. shares tucked discreetly among the news of well-known standard issues—if all this happens, you may be doubly sure that your name has been added to an active "sucker list."

How it got there may not be much of a mystery, after all. You may be a holder of record of shares of a prominent corporation whose stockholders' list has been filched by a dishonest clerk. Your name is probably listed in your local telephone directory. These add volumes to the sucker lists. You may have attended a convention during the last year and signed the convention's registration sheet, easily available to anyone who cares to copy the names. Taxpayers' lists, poll tax registrations, automobile license registrations, local newspapers with their news and advertisements of the town's first citizens—all these go to swell the volume of "live names" which provide the mainsprings and running gear for this new-old game, known to its operators as a "racket." There is an open market for names in New York's fringe of shady finance. The going price is ten cents per name, and one may buy thousands at that figure, mostly those of good, solid, reputable citizens in their own communities—men and women who are bond and stock holders in varying degrees of affluence, and who are on the lookout for investments of promising and profitable nature.

The "Racketeer" a Type

THE "racketeer" is a high-pressure salesman, and he should be shunned as a pestilence. His appearance is neat, his tongue glib; he lives well, eats well and dresses well. It is very seldom he encounters the law. He tries to stay just inside it. Nevertheless, he takes from prospective investors of this country millions of dollars annually, giving them in exchange dubious securities which have little or no market value. It is not an actual and open-faced steal, but it is so near the border line that few who have succumbed to the dulcet-toned "racketeer" will ever recover their principal.

The old-time bucket shop is no more. It has been swept from the country by the Better Business Bureaus and the attorney-generals and district attorneys. Here and there, in little, musty back rooms, bucketing is carried on quietly by a few old-timers who cannot believe that the old days have passed. But they are kept on the hop, and their annual takings, compared with a dozen or even half a dozen years ago, are inconsequential. It was less than ten years ago that the country was honeycombed with bucket shops. Not less than eight of the biggest had their headquarters in New York, with branches in various parts of the country. They were veritable gold mines to their owners, who waxed fat on the profit from stocks they were ordered to buy—but didn't.

Curiously enough, it was a bull market which put a most effective stop to the organized bucket shops of this country, the inflated market of 1920-1921, when customers pyramided their profits so fast, under the stimulus of a strong bull market, that the bucketeers had no opportunity to close them out. Receivership was the only recourse, and they blew up with a regularity that resembled a bunch of exploding firecrackers. Sixty-two in New York went out like so many lights within two months. Their creditors received an average of ten cents on the dollar.

Then, the House-cleaning

THAT series of events aroused the authorities. The boldness of the bucketeers had been exasperating, anyhow. The Stock Exchange jumped into the campaign with more than usual enthusiasm. Such bucket shops as did not fail were literally pestered into an early exit by the combined efforts of the Better Business Bureau, the Stock Exchange and the Attorney General. Some of these exits were taken with a smooth bow, some grumblingly. A few were pathetic and some ludicrous. Many bucketeers retired to their country homes for all-year-round golf, a few sought more fertile fields abroad, others shifted to various enterprises through which a dollar could be turned without excessive perspiration. The point is, they have gone. Like the old-fashioned gambling parlors, they will never return, although the gambling houses had a greater right to existence. They gave the player a chance. He could win—sometimes—if he were skillful enough or lucky.

A few people recovered their money from New York bucket shops of the old school, but they were mostly large, serious gentlemen, wearing slouch hats, hailing from various points west and south, who alighted in New York with the avowed purpose of making their own particular bucketeer disgorge or undergo physical combat.

The new game of the ex-bucketeer is known as "high pressure salesmanship." The object, of course, is the same—to get the money. The technique, however, has changed measurably. The bucket shop urged the customer to buy the best of securities listed on the exchanges. He lost when he permitted himself to be led into taking on an assortment too large on a margin too thin. The high-pressure salesman of today has no margin accounts. The stock he sells must be bought outright. The trouble is in the class of stock he sells. It usually is of fourth grade, or worse.

Is the new-old "racket" successful? The Better Business Bureau knows it is. The Stock Exchange and reputable brokers throughout the country, trying to lead investors aright with first-class securities, know it is. A campaign to ferret them out and close the "racketeers" up has been started, but the success attending the efforts thus far has not been very brilliant.

Wall Street is literally over-run with high-powered salesmen. Almost every large office building in the financial district houses one or two. However, since there is no special reason why they should move and live and have their being in Wall Street, many of the headquarters offices have been moved to the Forty-second Street district and on upper Fifth Avenue. Investigators place the number of high-pressure sales managers at work today in New York at more than 500. Including the salesmen, the number is probably nearer to 5000. One asks, why are they not caught and jailed? One reason is that most of them operate just within the law. Securing evidence against them is difficult and a conviction doubtful. What crime is committed by one man calling another on the telephone and endeavoring to interest him in the purchase of securities? Fraud is difficult of proof.

How "Racketeers" Work

THE high-pressure salesman can operate on a shoestring. Most of them do. He needs only a desk, a chair and a telephone. But the establishments range up to elaborate ones with fifty or sixty telephone booths, each containing a "wire man," with long lists and a card index of each pros-

pect's possibilities, together with a complete clerical staff. Many of them publish their own "market sheets," poisonous little screeds which purport to give a résumé of the stock market, with careful analysis of three or four popular leading issues on the Stock Exchange, and with an assortment of market news interestingly and entertainingly written. The catch in it, of course, is that tucked behind the legitimate news, which has been boldly lifted from the daily newspapers, is a quiet little boost for X. Y. Z. shares, which the firm is "high-powering."

Sometimes, what is comically called a "Questions and Answers" department is used. George G. Sapp has inquired by letter about the prospects for X. Y. Z. He gets the answer in glowing terms, without doubt. The paper, or sheet, is mailed free to the prospect. He gets it whether he wants it or not. One firm gets out from 75,000 to 100,000 copies of its "newspaper" every market day of the year. It probably is a blot on the escutcheon of those charged with the responsibility of educating the investing public of the United States, that there remain such a multitude of people in the country who have no more financial sense than to follow these tip sheets, read them religiously and follow their selfishly directed advice.

What stocks are these on which our high-pressure salesman fattens? They are of all sorts, kinds, shapes and descriptions. One thing they are not; they are never securities listed on any reputable exchange. Usually they are ones in which trading is entirely unsupervised. Mostly, too, they represent the shares of a struggling and little known corporation, one which, in desperation for money to keep going, has sold an option on a part of its capital stock at a low figure. Many times the officials of the corporation itself are not to blame. Frequently they do not know what happens to their shares nor what devious and dubious methods are used in their distribution.

A typical case may be of interest. The X. Y. Z. Corporation, engaged in manufacturing, finds its product increasing in popularity, but lack of capital is hampering its expansion. The sum needed is $250,000. The bank with which the corporation does business does not want to advance this much, and the sum is too small for reputable houses of issue, with their tremendous overhead, to trifle with. It becomes known, through advertisement or otherwise, that the corporation would like to sell some of its treasury stock, sufficient, in fact, to raise the $250,000. The necessity of the borrower makes negotiation easy. He elects to sell 25,000 shares at $10 per share and is to deliver the stock, as sold, to the affable stranger who is always able to present good references.

Making a Market

WITH this option in hand, the high-powered salesman organizes his shop. The minimum selling price he fixes is $15, which still gives him a gross profit of $125,000 when all the shares are disposed of, say $100,000 net. The power house then proceeds to "make a market." He will telephone to a dozen or so leading houses, notifying them that he will buy up to 500 shares of X. Y. Z. at $15. He sends along his check to cover the purchases, if made. He notifies three or four other houses—Stock Exchange houses if he can get them—that he will sell 200 shares of X. Y. Z. at $15. The sales are made and the accounts settled. He has made a trade at only the expense of a commission. Sometimes this will be on a larger scale, with a thousand or so shares washed back and forth. The stock is "made active," and, of course, the traders for these houses know of it, and gossip about it over their wires. A friendly trader is allowed now and then to make a little profit—a half point or so—on the deal. Thus the stock gets talked about and the inquiry for it grows. Two or three houses usually have good-sized buying orders in it which are "made good" each day.

In the meanwhile, the little tip sheets have spread the word far and wide that X. Y. Z. is "good." It is a share in a prosperous and growing corporation whose business is expanding. True enough! It ranges alongside U. S. Steel and General Motors in attractive speculative possibilities, these tip sheets aver. Remember when Steel sold under $20? Look at it now! It is the good old "come all ye" game, and it flourishes despite anything the security vigilantes can do. As the shares are sold, the call is exercised, of course, and the profits pocketed.

The telephone is busily at work. It makes no difference if the prospect lives in New York or 2000 miles away. He is called just the same. The assets of the telephone salesman are a good speaking voice, a persuasive tone, a good argument and his ability to keep the prospect from hanging up the receiver in his ear. One "power house" in lower New York has a telephone bill which hovers around $10,000 every month of the year, to say nothing of its telegraph tolls.

Does the telephone company lose when these gentry reap their profits, fold their tents, send back their installment furniture and silently steal away? It does not! With a careful eye to business, the telephone company demands and gets a good sized deposit when the instruments are installed, and the calls may run up to that amount and no further. Most of the "power houses" keep a deposit of $5,000 with the telephone company at all times, by request, and keep that amount good by additional deposits when it falls below the agreed sum of protection.

The Telephone Books Aid

THE telephone book is the handy servant of the high-powered salesman. It is a percentage proposition. Each salesman is allotted a letter. We will say he has the letter "M." He starts at the first subscriber in the "M" list and patiently goes through the entire list. He hopes to discover one "live one" in every ten calls. All he wants is to get the subscriber's ear. Curiously enough, everyone wants to make money, and that is his jump-off phrase. "Do you want to make some money," he inquires of the first "M" subscriber who answers and who does not immediately hang up the 'phone in his ear. The natural answer is "Yes." He is off on a whirlwind of elocution which has been practiced time and time again, and leaves the telephonee no chance for a comeback. The prospect is impressed with the opportunity; the stock is being privately placed; a strong pool is being formed to put it up; its possibilities are unlimited; we will take the securities you now own and liquidate them for you without cost or commission, and put the proceeds in X. Y. Z., and so on, ad lib.

"How is the stock quoted today?" the prospect may inquire, his curiosity whetted.

"Just a minute, I will get you the market," comes the answer. A hand goes over the receiver. The salesman waits a full two minutes. He aims to give, and does give, the impression that he has had to dash out to the order room and find out just at what level excited thousands are buying and selling the stock at that particular time.

Back he comes on the wire. "She's quoted 15½-16 right now," he declares fervently, and usually, "We hear of some big orders in the market." The dupe pauses, and it seems time to put over the deal. The salesman waxes confidential. "I believe I can pick you up a block of 500 shares for 15 if you'll give me a couple of minutes. Wait now, just a minute." The hand goes back over the receiver and business of trying to get the 500 shares follows.

"Yes, I've got it all right, half a point below the market, with a profit to you already of $250. Hold it, you're going to make a barrel of money out of this."

Once the deal is closed, the wire is closed simultaneously. The customer might change his mind. Out go his 500 shares, which, of course, were already in the office, with draft attached.

For the Wary Prospect

BUT suppose the customer had never heard of this firm. He hesitates to do business with them without knowing of their responsibility. Easy enough! "Buy it through your own broker" is the answer. That disarms suspicion. Of course "your own broker" must come to the original and only source of supply if he is to follow his customer's orders.

It is so easy that it would be laughable, were it not pathetic, that by such crude methods are distributed to a guileless public hundreds of thousands, even millions, of dollars of questionable securities every year. The iniquities of the new-old business are these: The stock is usually sold at an inflated price, based on a pseudo market made by the high-powered salesmen themselves to aid their own business. It is by no means a "free and open" market. The companies which the shares represent are small, usually under-financed and without great prospects of success in their fields. Their officials know nothing of markets, and when the high-powered salesmen withdraw, the buyers of the shares suddenly find themselves marketless.

Sometimes, as in the case of recent mining share and oil share flotations, the companies are merely stock jobbers themselves, whose securities are worthless. This, however, is not always the case. It is usually the case, however, that shares sold in this dubious manner are those of under-financed and struggling companies with dim prospects, whose cry is for "new money"

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The Trend to Chain Banking

By H. H. PRESTON

Concentration Of Financial Power By Bringing the Smaller Banking Houses Under Unified Control Moves Forward After the Check On Branch Banking. Favorite Method Now Is Holding Company. Difficulties of Regulation and Supervision.

THE branch banking controversy was quieted, temporarily at least, by the passage of the McFadden Banking Act. But in recent months other means of bringing banking institutions under unified control have been attracting special attention. Interest has been centered especially on "bank holding companies," "bank investment companies" and similar forms of centralized banking control. These forms of control are not new, but, on the contrary, have been in existence for decades. The size of some of the holding companies and the fact that they have invaded some of our metropolitan centers probably accounts for the special public interest in them at this time.

The term "chain banking" has been more or less generally adopted to describe these groups of nominally independent banks which have been brought under a common management by various devices. This name is not entirely satisfactory because it was earlier attached to a type of banking control in which a banker used the funds of one bank directly or indirectly to establish a second bank, and then in turn a third from the funds of the second, and so on. His real investment of capital would thus be very small in relation to the nominal capital ordinarily invested in a similar number of distinctly independent banks. This practice obviously has its drawbacks, and many states have undertaken to stamp it out by law. But in recent years the term chain banking has been applied to a variety of forms of banking groups. It is in the newer and broader sense that the name is used throughout this paper. Moreover, it should be clear at the outset that, although some forms of chain banking have proved unsound, it is not the writer's intention to reflect in any manner upon any form of banking control by placing it under the title of chain banking.

Definition and classification of chain banking is difficult. The essential difference between chain banking of the kinds to be described here and branch banking is that in branch banking all of the units of the organization become merged into a single corporation with common capital and a single profit and loss account. In the chain systems, on the other hand, each banking institution has separate capital, its own board of directors and is a distinct organization. From outward appearances there is frequently nothing to indicate any connection between the individual bank and other members of the chain.

Chain banks may be classified into two principal groups on the basis of stock ownership:

(1) Banks the stock of which is owned by individuals.

(2) Holding companies, i. e., where the stock is owned by a corporation.

The first group may be subdivided into perhaps four classes.

(a) Chains consisting of two or more banks in which one man or group of men own sufficient stock to dominate the policy of the institutions.

(b) Interlocking directorates or affiliations of executive officers of separate banks. This may naturally accompany class (a) above.

(c) A subsidiary bank or banks, stock of which is owned pro rata by the stockholders of the "parent bank." In this case the stock may actually be held in the name of trustees consisting of directors of the main institution. This trustee device centralizes administration and prevents any transfer of stock in one institution without the other, indorsement of ownership usually being made directly on the stock certificates of the "parent bank."

(d) Exercise of control by making loans from the "parent bank" to nominal owners of stock in smaller banks.

The holding company form of control is also quite diversified in actual practice. Some holding companies limit themselves absolutely to bank stocks. The holding company then becomes the "head office" of a distinct chain of banks. Others are known as investment companies or security companies and actually invest in a wide range of stocks and bonds in addition to stock of controlled banks.

It must not be assumed that the distinction between these different classes of chain banking is clearly marked off. On the contrary, there is much overlapping. Frequently a chain system has passed from one stage to another or two or more methods of control may exist at the same time. Moreover, branch and chain banking may be found associated in the same group. An outstanding example is the Bank of Italy with over 280 branches and also a large number of affiliated banking and financial institutions.

Chain bank systems include national and state banks. As pointed out before, each bank in the system preserves its identity. Consequently it is frequently impossible to discover the controlling interest and the banks under such control. Official banking statistics do not show this relationship. Some attempts have been made by individual investigators to collect information on these types of banking systems. On the whole, however, the available statistical information is quite fragmentary.

Chain Banking Widespread

IT is known, however, that chain banking is very widespread. Dr. H. P. Willis in his testimony before the Senate Committee in 1926 estimated that the number of banks included in chain groups in the United States was not less than one thousand. His estimate was based upon information obtained at first hand in connection with a general banking survey which covered all of the states. Some chains have been very extensive. When the Bankers Trust Company of Atlanta failed in July, 1926, eighty-three other banks in Georgia and Florida simultaneously closed their doors. It was reported in the current papers that there were at least one hundred and twenty-five Georgia and sixty Florida banks in the chain.

Chain banking has had a very extensive development in the northwestern states tributary to the Twin Cities, and has been in existence there for many years. Miss Mildred Hartsough, in a study of the "Twin Cities as a Metropolitan Market," has devoted a chapter to the history of chain banking in the Northwest, especially in relation to its effect upon the financial influence of the Twin Cities. This is one of the few comprehensive studies of chain bank development. She points out that chain banking in that territory began about 1890. One banker estimated in 1923 that not more than 50 per cent of the banks in the area tributary to the Twin Cities were entirely independent institutions. Miss Hartsough has expressed the opinion that this considerably overstates the fact. She says, however, that there were in 1920 ten or twelve major lines of banks in the Northwest, each controlling from ten to thirty-five banks, and at least thirty or forty smaller ones, controlling from two to ten banks each. Quite a number of these banks collapsed following the crisis and depression of 1920-1921. The extent of chain banking, therefore, is apparently less than it was prior to that time.

Texas furnishes an example of a group of banks, the members of which originally were established as branches of a special charter bank. During the reconstruction days a good many banks were granted special charters in Texas. Some abuses developed in this special charter method, and as a result state banks were prohibited in Texas from 1876 until an amendment of the Constitution in 1904 which made it possible to enact a general banking law in 1905. Under this general banking law branch banking was prohibited. One of the earlier banking commissioners desiring to bring existing institutions as far as possible into conformity with the new law per-

suaded the owners of one special charter institution to incorporate its several branches as separate banks. This was done, a trust company in Fort Worth at first serving as a holding company. Unified control still exists, but the form has been modified and some changes made in the banks included in the group.

Stock Ownership

INFORMATION regarding stock ownership or interlocking directorates is not readily obtainable. The Bankers' Directory, however, publishes the names of executive officers of banks. A casual examination of the list of bank presidents in three states shows one man serving as president of thirteen Michigan banks. In Arkansas one man is head of eighteen banks. A group of at least fourteen banks in Iowa, Nebraska and South Dakota all have the same president.

Similar groups can be found in other states east and west. There is a group of nine banks in Nevada which is of special interest because, while not an exceptionally large system, it represents nearly one-third of the entire number of banks in the state.

These illustrations are representative of chains where stock control rests in the hands of a single individual or his immediate associates. Since they are principally non-competing country banks, interlocking directorates are not forbidden by the Clayton Act, and no special permission is required to enable one man to serve as an officer or director of several banks.

Holding company control of banking has been used in Minnesota chains, in New York, New Jersey, California and other states. In Washington, where the writer resides, there are at least two well-recognized bank holding companies. One of these—the Union Securities Company of Spokane—has operated continuously since 1909. During that period it has controlled as high as 25 country banks in Washington and northern Idaho.

Unified Control

THE Marine group of banks in Seattle furnishes an illustration of unified control of three city banks—one downtown national bank, a state bank located in the retail district several blocks from the "parent bank" and a suburban state bank located in the University district, about four miles from the nearest of the other banks. These banks were at first affiliated through stock ownership and interlocking directorates. In the last few months a holding company has been created—The Marine Bancorporation—which has acquired the stock of the three banks. Since the banks are not competing institutions the Federal Reserve Board has authorized interlocking directorates under the Kern Amendment to the Clayton Act. This made possible complete coordination of control even before the stock of the bank was acquired by the holding company.

Last month the Marine Bancorporation acquired the controlling interest in the Capitol National Bank of Olympia, with total assets of $2,878,149. This is one of the most substantial banks in the smaller cities of the state. The stock acquired was from the personal holdings of its founder and president, who for nearly forty years had been at the head of the institution. For the present at least no change of management is contemplated. The significance of the action lies in the fact that the Marine Bancorporation has extended its holdings outside of Seattle.

The Brotherhood of Locomotive Engineers is responsible for forming a unique banking chain. In all of the banks the Brotherhood owns 51 per cent, the remainder being sold to its members and to the public. Some of these banks were founded and until recently were controlled by the Brotherhood through a holding company.

The illustrations from the Minneapolis area, from Texas, Nevada and Washington are all drawn from anti-branch bank territory. Even in California, however, where branch banking is most extensively practised, the holding company plan has been utilized as a means for extending the scope of operations of some of the leading branch banks. The Bank of Italy has developed the most complete system of branches in the country and also is affiliated with one of the country's most extensive financial holding companies—the Bancitaly Corporation.

This institution appears to have been created originally in 1918 to take over a New York bank. Since then it has apparently varied its activities to suit the purposes of its founders. At the hearings on the McFadden bill in 1926 a chart of its holdings was presented which showed it to be essentially a bank holding company and primarily engaged in bringing about a unification of California banks which would have been impossible under state law. It owned a substantial block of Bank of Italy stock, practically all of the stock of the Liberty bank, with thirty or more branches, a large interest in the Americommercial Corporation, which in turn owned the Bank of America and the Commercial National of Los Angeles, both branch institutions. It was also a stockholder in sixty-seven domestic banks located in the principal cities of the country. Foreign holdings included fifty-nine banks in sixteen different countries. Early in 1927 the principal affiliated banks in California were merged with the Bank of Italy, which then nationalized under the title of the Bank of Italy National Trust and Savings Association. Last month the Bank of Italy strengthened its position in the eastern field by the acquisition of the Bank of America in New York.

Other California banks have followed the lead of the Bank of Italy in branch development, and also apparently in transferring stock ownership to a holding company. These California developments are being watched with interest in other sections where the holding company device is being used.

Eastern Examples of Current Trend

NEW YORK and New Jersey also furnish examples of the current trend toward bank holding companies. Examples of holding companies of recent foundation are the Financial and Industrial Securities Corporation and the National American Company of New York, and the New Jersey Bankers Securities Company. It appears that these companies control outright several banks, and have considerable holdings in others.

It is not possible to cite many specific cases of banking control through loans on bank stock. Such arrangements are probably not uncommon, but are essentially private in nature. One case drawn from the experience of two banks not now in existence will suffice to illustrate the method. In this instance the control was practically absolute. Nearly all of the stock of a bank in the State of Washington was controlled in this manner by a bank in Portland. Originally the two banks were affiliated through common ownership. Later, practically all of the stock was indorsed to the Portland Bank as pledged, and dividends were even paid to it. Naturally, its policy was dictated by the "parent bank." The deposits of the bank were subsequently sold and all connection severed.

The illustrations of chain banking thus far cited have not included the type of control where stock of a subsidiary bank is held in the name of trustees for the benefit of the stockholders of the "parent bank." Most readers will call to mind examples of this kind of control. It is usually found in city banks, and is ordinarily confined to a very limited number of subsidiaries.

Because of the fragmentary nature of the available data I have felt that a statistical study of chain banking would not be of value. Typical chains located in various states have been cited simply to indicate something of the form of organization, and also something of the extent to which they have flourished. It will be noted that the holding company form is not new, but has been employed for twenty years or more to bring about unified banking control. The dominant trend in chain banking development today, however, is toward the holding company.

Advantages and Disadvantages

IN appraising the advantages and disadvantages of chain banking it is necessary to contrast it with unit banking on the one hand and branch banking on the other. Moreover, since it exists in a variety of forms, generalizations regarding it are almost meaningless. Excellent systems may be found side by side with very weak chains. The conservatively managed chains have had the advantage of experienced direction, the benefit of expert advice, and an opportunity, in a limited way at least, to diversify their risks. Banking supervisors and bankers of Nevada and Washington generally concede that the central control of groups of country banks has strengthened the banking situation in those states.

In addition to the possibility of more successfully meeting adverse local conditions, when conservatively managed, chain banking and branch banking both perhaps offer the possibility of a greater fluidity of capital under some circumstances than is possible in strictly independent banking. Moreover, because of the connection with a large organization, broader banking service may be maintained.

Some rather formidable objections are being raised even to well-managed chain banks. These are, in general, the familiar argu-

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Is Banking Different?

By ARTHUR L. IRISH
Vice-President, Guardian Trust Company, Cleveland, Ohio

"Cut Operating Costs by Scientific Management and Profits Will Increase." Can That Bit of Banking Advice Frequently Given to Executives in Other Lines Apply with Equal Force to Bank Management? The Experience of a Bank That Adopted It.

"CUT your operating costs by scientific management and your profits will increase," bankers tell their customers. Yet when asked to explain their failure to follow their own advice, they reply that banking is different.

But is banking really different from any other business? Do not the same fundamental principles of operation which make an industrial organization successful apply with equal force to the administration of a financial institution?

Seven years ago President J. A. House decided that the work of the Guardian Trust Company of Cleveland could be divided properly into two classifications. In the first fell those matters which required the attention of specialists trained in banking technique, while in the latter were grouped all details of operating routine. In his opinion it was sound economics to divorce one from the other, and with that in mind he created a central clearing bureau known as the operating department under the direct supervision of a vice-president who was familiar with that type of work in the industrial field.

The operating department controls all the general service departments, such as the paymaster, timekeeper, purchasing, printing, stenographic, telephones, guards and pages, reception clerks, general files, messengers, mailroom, dispensary, addressograph, mimeograph and hectograph. It handles all personnel problems and adjusts any difficulty between departments. It makes all floor space assignments, formulates the rules governing the conduct of employees, enforces office discipline whenever necessary, and issues all general notices to the staff.

All operating charges are approved by the department before payment is made, and it is responsible for all purchases. Furthermore, all of the bank's equipment is under its control, and the operating staff is expected to look after its proper maintenance. There are, of course, a wide variety of minor duties handled by the department, but those already mentioned give a bird's-eye view of its functions.

Periodic Studies in Efficiency

STUDIES of efficiency and economy both at the main office and branches are made from time to time with very considerable benefit. This practice has been maintained ever since the organization of the department in May, 1921. At that time a careful survey was made of the entire bank along the lines of job analysis. The first thing revealed in the early stages of this particular investigation was the tremendous amount of page work done by high-priced employers who seemed to take their daily exercise walking from one place to another on real or imaginary missions. A stop was put to this by the installation of an interdepartment mail service on a fifteen-minute schedule. In addition to a marked reduction in traffic about the bank, this system quickly revealed that it was possible to eliminate pages and other clerks formerly thought necessary by various departments.

This job analysis study permitted the bank to ascertain whether or not the senior clerks were handling the important work in each department with the junior employees caring for the elementary detail. It developed that in many cases the high-priced men were doing things which could be assigned to those in the lower grades equally well. Furthermore, any overlapping of duties or duplication of work was bound to reveal itself during the investigation, and so was the qualification of each clerk for his or her particular job.

Upon completion of the survey sufficient data had been assembled to warrant the preparation of a comprehensive organization chart showing the duties of each department and its subdivisions and their relation to all of the other activities of the bank. In this manner the work of the bank was visualized, and every member of staff made to understand the allocation of the various departmental functions. All employees were also impressed by the fact that their individual work must be along very definite lines if the bank was to operate in an efficient manner.

The handling of personnel matters was then systematized by the consolidation of the records of employees. The file covering each member of the staff consists of his or her application blank, record card showing the home address, date of birth, different positions held, salary adjustments, and similar information. In addition, there is a time analysis covering all absences and tardiness, the doctor's examination made when the clerk was hired, and the application in connection with the bank's group insurance plan.

Promotions From Within

THE policy of the bank calls for all promotions to be made from within the organization whenever that is possible, and in actual practice there are but few deviations from it. The result is that approximately 90 per cent of all new employees have never had any business experience prior to joining the staff, and the turnover in help consists almost entirely of those with salaries less than $125 a month who have been in the service less than a year. In this connection it is interesting to note the constant shrinkage in the ratio of turnover to the number of workers. In 1923, the first year such a record was kept, it was 27.9 per cent, then 23.9 per cent in 1924, 19.5 per cent in 1925, 17.9 per cent in 1926, and 13 per cent in 1927, a new low record. This compares with a ratio of 31 per cent shown by a study of a large number of concerns employing in total more than 200,000 people, and 33 per cent, the normal for many banks.

Small turnover is the direct result of the five basic principles of the bank's relationship with its staff. First, pleasant working conditions are furnished each man and woman—good light, fresh air, a comfortable amount of space, and modern equipment. Second, there is the policy of promoting from the ranks whenever vacancies occur in the higher grades. The bank's pension and insurance plans assure employees not only of comfort in old age, but also that each will have a really substantial estate to leave to his heirs. This is not charity, for the small burden of expense involved is borne by the employee and the bank, both contributing to the funds in question. Then, too, it was felt some years ago that the workers should have a partnership interest in the business, and consequently the staff was given an opportunity to buy the bank's stock under favorable conditions, both as to price and terms of payment. Lastly, the policy of the institution toward employees who are ill or faced with some financial emergency is human in its approach and liberal in its application.

Golden Rule Dividends

FOLLOWING the Gold Rule pays handsome dividends, for experienced employees on the job mean the efficient operation of the bank, and there is lower payroll expense because the number of clerks is thus considerably less than would be the case were it necessary for experienced workers to devote large amounts of time constantly to the training of new clerks in the bank's routine.

In every instance the interested department head must approve the selection made by the operating department before any applicant is employed by the bank. On the other hand, no department head can dis-

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EDITORIAL

The Rate of Interest

THERE has been a very general discussion throughout the nation of the views on interest rates which Charles E. Mitchell, president of the National City Bank of New York gave in the February issue of this JOURNAL. While his views have been endorsed by many, savings bankers have pointed to obstacles in the way if they attempt to lower prevailing rates. The discussion continues and among the articles in this issue is a presentation of the case of interest rates with special reference to the savings depositor, by J. R. Sartori, president, Security Trust & Savings Bank of Los Angeles.

The Shorter Cycle

GENERAL progress in science and industry has a tendency to shorten the cycle of life of both enterprises and of various units within enterprises.

As long as progress continues this tendency must prevail, for progress means finding ways to do things with less labor and less waste than before, and the discovery of the new method or the new way means the end of the cycle for one operation or one business, as well as the beginning of a cycle for another.

The tendency to the shorter cycle demands more and more vigilance on the part of both the investment and the industrial banker.

An Economic Loss of $672,097,000

THE American Road Builders Association estimates that 26,618 persons were killed in highway accidents during 1927; that a total of 798,700 were seriously injured; and the association places the economic loss at $672,097,000, exclusive of minor damages to motor vehicles.

These are only estimates, but the estimate of the number of killed does not vary much from other estimates and from the general expectation of the year's losses.

This is the annual human sacrifice to the god of speed and pleasure which town and country, state and national government, seem to be unable to stop.

This is for the most part the result of individual contempt for the laws of the land—codes for others to respect, but not for the offender.

It would be interesting to know how many of these deaths and how much of this economic loss is due to the comfortable thought of the driver that he is "covered against everything" by insurance.

It would be interesting, too, to know how many of these deaths and how much of the loss is due to the knowledge that killing by an automobile is too often regarded just an accident not likely to be punished.

How much of the slaughter is due to the fact that traffic courts often are so crowded that inquiry into the merits of each case is practically impossible, and that a summons to court, conviction and a nominal fine is more of an annoyance than a punishment? In New York City recently someone publicly proposed to relieve the congestion in traffic courts by an arrangement which in effect would make a mockery of justice. When a violator of traffic laws receives a summons it was proposed that he be permitted to send in a fine by mail and thus save everyone time and trouble!

At this rate of killing we lose more people in every period of five years than our total loss during the World War—deaths from all causes both foreign and domestic.

How long will the nation stand weak and irresolute before this spectacle of human sacrifice unparalleled in all of history!

Trustee's Responsibility

WHEN a bank or trust company accepts the office of fiscal or paying agent or trustee for the securities of a company it assumes not only a corporate but a public responsibility. That this obligation is too lightly held at times is apparent. An investment trust conducted by a group of men who have in the past been criticised recently collapsed. The trustee of the stocks deposited against the units of participation was an institution with a kell known name. Undoubtedly the promoters of the investment trust made capital of the trustee's name in selling securities. The bank name carried respectability with it. Investors could not but feel that what they were asked to buy was worth what it cost if a bank of such prominence had an identity with it. It was a natural and fair interpretation.

We believe, therefore, that a bank or trust company should be as discriminating in the matter of accepting trusteeship of securities as it would be in making loans to questionable enterprises and from which the public, which respects its judgment and its integrity might, in the end, suffer financial loss.

Fourth Phase of Federal Reserve System

THE constructive influence of the Federal Reserve System should continue to enlarge with the years, and even the most far-seeing bankers and economists can not thus early in its history state the limitations of its usefulness.

In the annual report of the Federal Reserve Board issued during the latter part of March there are a few paragraphs preceding a statement of a future policy of the highest importance to business.

Referring to the granting of indeterminate charters to the Federal Reserve banks during the period covered, the report says:

"This action is interpreted by the board as affirming the confidence of Congress in the Reserve System and giving assur-

ance to the country that the System's operations will be continued on a permanent basis.

"Since its establishment in 1914, the Federal Reserve banks first assisted the government in meeting the heavy financial requirements arising out of the war. Later they were an influence in moderating the economic effects on this country of a world-wide adjustment. More recently they have taken part in the restoration of sound monetary conditions throughout the world.

"The System is now in a position to formulate long-term policies to be pursued under more normal conditions in a world that has made great progress during the past year toward economic and financial reconstruction."

Thus it appears that the Federal Reserve is entering upon the fourth well-defined phase of its work. As the basic thought in the creation of the System was stabilization, it is assumed that the long term policies of this fourth phase will have values peculiar to themselves as have the three preceding phases.

Survey the Community Waste

A NUMBER of communities seeking ways to improve their prosperity have turned to the industrial survey. Its purpose is to discover more ways to make money for the people of the community.

Those communities, and all communities, might learn something very much to their advantage from a survey made to ascertain the community losses. It might astonish many a hard headed business man to read the total community loss that could be run up from such items as purchase of worthless stocks; economic loss due to motor accidents; loss and waste due to gambling of various kinds; loss due to bootlegging; loss due to the number of community parasites; loss due to inefficiency in public work; loss due to make-shift municipal planning.

Many a community might be much improved if its leaders would make a survey of its annual waste along the lines suggested above—and then took appropriate action to stop the folly.

It might mean more in the way of advancement than the acquisition of a new industry.

The Big Problem of the Age

THE greatest problem of the present age, declared John H. Puelicher in a recent address, concerns itself with the right use of great amount of leisure that people of the present generation possess. That because of this very leisure there is more hurrying on the part of some than ever before is no proof that there is no excess of leisure, but quite often this hurrying is proof positive of the misuse of the time which the labor-saving machinery has given to us.

"Every age brings with it problems to be solved, the solving of which develops the qualities required for the living of that age," said Mr. Puelicher. "Probably the greatest problem confronting the present age concerns itself with the right use of its growing leisure. Will this leisure bring with it wants that develop or wants that destroy? When necessity compelled long hours of toil, man's wants were few, but growing leisure has developed wants formerly altogether unknown. There was probably never a time when man was not concerned with three types of wants, viz: 'Things he wishes to have,' 'Things he must have' and 'Things he should have.'

"Standards of living determine in a measure the character of man's wants. The wants of primitive man were few, but the wants of man today are increasing with the growing ability to gratify them. In their wise gratification lies the hope of the future, for resisting the desires for that which one wishes to have but should not have, in favor of that which one should have, lies the development of that force of character which formerly grew out of the need of hard work and harder saving.

"The character of man's wants constitutes the severest test of the saving man's ability. The saving banker is not so much concerned with 'what man wishes to have,' or with 'what man must have,' as he is concerned with 'what man should have' and 'what man should have' must be made to appeal to man's imagination, difficult as this may be, with the same force as appeal to him 'the things that he wishes to have' and 'the things he must have' or the character quality producing habits of thrift and saving will disappear from our national life.

"National advertising today creates desires for things which we neither 'must have' nor in some instances 'should have,' but which 'we crave to have,' and to create desires of this type is far easier than to create desires for the other two types."

In this aspect of the case, therefore, the savings banker has more than a problem in banking confronting him. There is also an opportunity. In solving the problem he has the higher opportunity of doing his bit toward helping the public to think more about the wise use of its leisure—the greatest problem of the age.

Get Started Right

THE last bulletin of the Federal Reserve Board shows that at present national banks are taking on fiduciary powers at an average rate of one bank for each working day. The rate in all probability will be increased as an understanding of the superior facilities and safety of corporate fiduciaries sinks into public consciousness. "It is only a question of time until all the banks are going to take up the trust business," said President Thomas R. Preston in a recent address.

The opportunity which this awakening on the part of the public presents is, however, more obvious than many of the responsibilities and liabilities that the acceptance of this class of business entails.

The responsibilities are great and the pitfalls are many. Details of trust company procedure are changed from time to time by new legal decisions, by new interpretations of law, by radical departmental rulings so it is of primary importance that a bank beginning to exercise trust powers, set up all possible safeguards,

Important, among many initiatory considerations, is the establishment of an adequate system of records, built upon the best experience of those institutions long engaged in the work, and designed especially against the coming of that time when there may be a fine splitting of points as to what was or was not the proper procedure in the administration of a trust.

Installment Buying in England

THE Midland Bank, Limited, of London, in its current review of business conditions, discusses at length that form of merchandising known here as installment buying and known there as hire purchasing. Hampered by a lack of statistics, the review is unable to state the case definitely, but it sums up its finding in the following paragraph:

"Summing up, it will be seen that installment, or hire purchase, business in Great Britain is in a formative stage, in which neither its shape nor size seems to have been definitely settled. As we have seen, this is largely due to technical difficulties, mainly concerned with the relevant legal provisions. Even so, the system has made enormous strides in recent years and has become an increasingly important feature of retail trade. Seemingly beginning, as in America, with the sewing machine, it has broadened its field of operation to cover a wide diversity of objects—motor cars, wireless sets, agricultural machinery and implements, furniture, bicycles, aeroplanes, jewelry, pianos, books, clothing, gramophones—until one begins to wonder what possible further delights may not become procurable under this system."

As Cartoonists View Events of the Day

Paper Protection.—Orr in the Chicago Tribune

"Will Your Argument Outweigh This?"—From the New Orleans Times Picayune

"Not Yet, Sonny, Not Yet!"—Chapin in the Philadelphia Public Ledger

On the Rampage.—Sykes in the Portland, Me., Express and Advertiser

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MONSANTO Chemical Works is the largest manufacturer in the United States of fine and medicinal chemicals and is also an important producer of heavy chemicals. It has consistently expanded the scope of its business through the introduction of new products as well as by the development of additional markets for its established lines.

THE development of a diversified chemical industry in the United States has been generally regarded as a very worthwhile addition to our economic life. Monsanto has been one of the important factors in this development and it has, in addition, won a place in the international market through a 50% ownership in a long established English company. Monsanto's Common Stock was listed on the Chicago Stock Exchange and the New York Curb when we made an offering of a substantial block of this stock. At the same time, we underwrote and distributed an issue of $2,000,000 First Mortgage 5½% Bonds to refund a larger outstanding issue of 7% bonds.

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Bonds ***Short Term Notes*** ***Commercial Paper***

Changes in New York's Legal List

By PHILIP A. BENSON
Secretary, Dime Savings Bank, Brooklyn

Provisions of the Four Laws Recently Enacted Which Have Enlarged the Field for Savings' Bank Investments. Extensions Cover Railroad Bonds, and Trust Obligations; Gas and Electric Company Bonds; Municipal Bond Investments; Collateral Loans.

THE large increase in the deposits of savings banks in New York State has made an extension of the legal list an imperative matter. While deposits have doubled in the last ten years, and in the year just ended have increased over $300,000,000, the available legal bond investments have remained about stationary. Furthermore, the funds in the hands of trustees whose investments are limited to the legal list have steadily increased and, as the public is educated to appoint banks and trust companies to act under wills, will continue to increase. Trustees, therefore, have as great a need of an extension of the legal list as have the savings banks.

Fortunately, during the last ten years there has been a constant demand for mortgage loans. A tremendous increase in new buildings followed the war, and the values of real estate throughout the state increased very largely, all of this real property affording a splendid outlet for our funds. We have taken advantage of the mortgage loan investment to the very fullest extent, but our limit has very nearly been reached. Many of our savings banks are up to the legal limit of 70 per cent, and nearly all the others are very close to it. At present the situation seems to be that good mortgages are hard to obtain, and that there are more funds looking for this type of investment than ever before.

Beginning of the Revision

AT the 1927 session of the legislature a joint commission was appointed to study the question of savings bank investments. Representatives of the savings banks went before the commission and requested that they consider the following classes of securities as proper for inclusion in the legal list: bonds of gas and electric companies; bonds of telephone companies; railroad equipment trust securities; railroad terminal bonds; railroad collateral trust bonds.

It was also suggested that the section of the law relating to investments in municipal bonds be rewritten so as to enlarge the field, and a further suggestion was made that the existing requirements governing investments in railroad mortgage bonds be amended so that the railroads would not have to pay dividends in order to keep their bonds legal. Representatives of trust companies, national banks, and others appeared before the commission to stress the importance of enlarging the legal list, and adding their indorsement as to the bonds and securities I have just mentioned.

The joint legislative commission accepted practically all of the suggestions offered. Bills were drawn and introduced embodying these suggestions and providing for the legalization of the bonds described. Four bills included all of the suggestions, and I will briefly explain the provisions of each of them:

Three New Types of Railroad Securities

FIRST, as to railroad bonds—the bill which extends our field of railroad bond investments embodies four things in one bill. That is to say, it adds three new types of bonds, namely, equipment trust securities, terminal bonds, and collateral trust bonds. The previous requirements regarding the mortgage bonds of railroads, providing that the road must pay dividends on its capital stock at the rate of 4 per cent per annum for a period of five years, is changed so that the law will read that a road is required to earn an amount equal to 4 per cent on its outstanding capital stock, or to pay in dividends 4 per cent on its capital stock for its bonds to remain legal. This is an improvement in the wording of the law, and one that will tend to strengthen bonds rather than otherwise, for, if a road earns 4 per cent on its capital stock and keeps the money in its treasury, or invests it in betterments, the road is stronger than if it paid out the same amount in dvidends, possibly depleting its treasury to do so.

Railroad equipment trust obligations must be obligations of a road whose mortgage bonds are legal, the obligations may not exceed 80 per cent of the cost of the rolling stock, and the entire issue must be retired in installments over a period not exceeding fifteen years. The history of this type of security is excellent, and the bill permits us only to buy the best. As to railroad terminal bonds, the bond must be secured by a first mortgage on a railroad terminal used by one or more railroads whose mortgage bonds are legal investments for us, and the bond must be guaranteed by one or more of such railroads.

The provision as to collateral trust bonds is a very simple one. If the collateral trust bond is secured by at least an equal amount of railroad mortgage bonds, which are legal investments for us, the collateral trust bond becomes legal. The bonds pledged must, of course, have a maturity not earlier than the bonds which they secure.

Second. As to gas and electric company bonds, provision regarding the bonds which will qualify under the bill providing for these investments is not at all complicated. It makes certain provisions as to the corporation which issues the bonds, and then as to the bonds themselves. The corporation must be an American company subject to regulation by a public service commission or similar body. It must have the necessary franchises. It must have outstanding capital stock of at least two-thirds of the debt secured by mortgage lien on all or any part of its property. It or its predecessor corporation must have been in existence at least eight years. It shall have earned not less than twice its interest charges for five years and shall have earned or paid an amount equal to 4 per cent on a sum equivalent to two-thirds of its funded debt. The bonds themselves must be either first mortgage bonds or first and refunding mortgage bonds of an issue of not less than a million dollars, and the aggregate principal of all such bonds and underlying bonds shall not exceed 60 per cent of the value of the physical property of the corporation. The provisions as to the bonds of telephone companies are very similar.

The Municipals

THE third important bill is that extending our field of municipal bond investments. All that will be necessary is to state the important changes this bill makes in the old law. The law contains three subdivisions.

(1) Bonds of municipalities in New York State. The only change in this part of the law is that five districts are added.

(2) Bonds of municipalities in adjoining states. There has previously been no population limit as to the adjoining states. The new bill states that only municipalities will qualify if they have a population of 10,000 inhabitants or over. A provision as to no default for twenty-five years has also been added, and "city" has been defined to include all incorporated municipalities. In order to save any investments previously made in municipalities of under 10,000 inhabitants, the law permits the owner to retain them. The debt limit provision has been taken out of this particular paragraph and put in a separate paragraph.

(3) As to municipalities in states other than adjoining states, counties and school districts are added provided they contain a city whose bonds are legal. The population limits are reduced from 45,000 to 30,000, provided the school district or county has unlimited taxing power. This reduction in the population requirements does not bring

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Land Bank Appraisal Problems

By H. PAUL BESTOR
President, Federal Land Bank, St. Louis, Mo.

Federal Agents Must Keep Constantly in Touch with Changes in Agricultural Practices, the Contraction or Expansion of Crop Acreage and Improvements That Affect Land Values. The Farmer Himself, Taxes and Other Obligations Watched. Few Foreclosures.

SHORTLY after the twelve Federal Land Banks were established ten and one-half years ago, the price of farms showed unparalleled activity, and had it not been for several factors inherent in the Act creating these banks, they would be in the same category as some of the other farm-lending institutions which guaranteed their bonds—out of business.

For three or four years after the banks opened their doors for business the price of land advanced very rapidly. Farmers capitalized their temporarily high earnings and speculation gave added impetus to the hasty action. When the peak was reached about 1920, we took a long toboggan slide. Prices declined precipitably at first, then more gradually, until in the last year or so the price curve upon which the toboggan had been riding straightened out and may have started upward again slightly. Thus, the pendulum of prices has swung in practically a complete arc since the land banks were started and the price of farm property over the United States is on a fairly comparable basis with that of 1917.

Several things guarded the banks against the accrual of too many farms. One of the most potent of these was the limitation which Congress placed on the amount of the loan, and the basis upon which it should be made. These banks, lending for periods running from five to thirty-six and a half years—loans being gradually amortized over the longer period—are limited to an advance of 50 per cent of the value of the farm land for agricultural purposes and 20 per cent of the insurable buildings thereon. That phrase "for agricultural purposes" combined with the idea that the loan must not be so big but what the farmer over a series of years will be able to pay the interest on the loan, pay his taxes, make a living and improve his financial position, has had much to do with keeping the average loans made by the Federal Land Banks somewhat below 50 per cent of the appraised value of the farms for agricultural purposes.

Value of Numerous Banks

THE wisdom of Congress is again seen in the action to create twelve banks instead of one, for the agricultural conditions even within a single Federal Land Bank district vary widely and any bank has a big task ahead of it that familiarizes itself with these conditions, with the various types of agriculture, with the problems of the farmers in making crops and marketing them, and with the vagaries of the weather, pests, and other difficulties with which the farmers have to contend. In this, of course, they are helped to a considerable extent by the local organizations through which the loans originate, the 4666 National Farm Loan Associations, the loan committee of which passes upon the value of the property before the request for a loan is transmitted to the Federal Land Bank and before it is appraised by a Federal appraiser, an official appointed by the Federal Farm Loan Board at Washington.

> ### Caution Pays
>
> *THE vigilance of the Federal Land Banks in making loans and in keeping in touch with borrowers after the loans have been made has kept foreclosures on farm lands to a remarkably low point. In ten years the Land Banks have acquired only* $15,500,000 *worth of farms while the loans outstanding have amounted to* $1,158,000,000. *Also, much of the land acquired by foreclosure has been resold at satisfactory prices.*

That these banks recognize the problems confronting them in the varying agricultural conditions is shown by the fact that within the last year one of them has organized a Conservation Department which is devoting most of its attention to farms with light soil upon which it has loans, requiring the owners to terrace them. Other banks are now using their appraisers to a certain extent in checking up the farms upon which they have loans to see that the buildings are kept in repair and that the farmer is making substantial headway.

In the ordinary course of farmer activity, a loan made on a farm for thirty-six years means that it will be tenanted or owned by three or four farmers during that period. Although we try to take the human or personal equation into consideration in making the loan and again in approving its transfer, the average individual must be considered after all in appraising the farm rather than the unusual or particularly efficient farmer who is making the farm pay a dividend beyond what might be expected from it under other management.

The Human Factor

EVERYONE who is familiar with appraisal work, or who is familiar with farmers and farms in his own community, appreciates that the human factor is an exceedingly important one when it comes to measuring the returns from a farm. Just as an appraiser must guard against over-valuation on account of an especially efficient owner, he must exercise care that he does not make loans to farmers who are chronically delinquent on taxes and other obligations as they become due. This phase of the making of loans is receiving more and more attention by the Federal Land Banks since in an analysis of some of their loans they have found through lack of diligence in studying the solvency of the borrower and determining for themselves his probable ability to "pay out" they have had to foreclose on farms within a few years after the loans were made.

The changing of agricultural practices and the shifting of farming from one area to another, the actual contraction of acreage farmed under the plow, the introduction of more power farming, the extension of good roads, the introduction of truck routes for hauling farm products including fruits and vegetables and milk, are constantly existing influences on farm values. Some are felt almost immediately while others only make themselves known over a series of years.

There are a number of districts in the United States in which this evolution in farm values has been going on rather steadily for the last half decade or more. How to meet these problems is a matter of constant study on the part of the Federal Land Bank officials and the Federal Farm Loan Board and the Bureau at Washington, D. C. To be a little more specific, the contraction in wheat acreage following the boom times brought with it a problem; the opening up of a vast acreage of cotton in Texas, cheaply harvested by machines, presents a problem to the older states east of the Mississippi, particularly South Carolina and Georgia; the over-production of a crop such as raisins or even a price war as en-

(Continued on page 804)

A Missouri Private Bank of Long Ago

By MACK B. JONES

Never Robbed Though the James Gang and Other Outlaws Ranged the Country. Proprietor Daily Engaged in Pistol Practice. In Thirty Years Only Fifty Dollars Charged Off. How a Doubting Court Was Convinced That the Bank Had the Money.

IN 1870 a big, red-headed Irishman, weighing 250 or more pounds, arrived at a little Missouri inland town. He was Captain James Ewart, a gradute of Ann Arbor Law School, of Oberlin College and of West Point. An ex-soldier of the Civil War, who had decided to try his luck at banking in Missouri, he opened a bank in a little frame shack in Maysville, DeKalb County.

Energetic and a fighter, he made good from the start, and at his death, after running the bank almost fifty years, left an estate of nearly $2,000,000. I was his cashier for almost thirty years, and remember only one note of $50 ever charged off. That was made by a poor lawyer who had been a candidate for prosecuting attorney, and it was more in the nature of a gift than a loan. Captain Ewart rarely made a mistake in picking the man to loan money to. The prevailing rate of interest on all kinds of loans was 12 per cent, one per month.

The town was ten miles from the railroad and thirty-three miles from St. Joseph, the principal town of that section. There were no telephones, electric lights, sidewalks, bridges nor culverts, and only one or two public roads in the county. A good riding horse was the big asset in transportation, and everyone owned one or more.

Bank Robbers Were Active

MISSOURI, then wild and woolly, was populated with Confederate and Union soldiers who had not forgotten the late unpleasantness, hence a fight could be started at almost any place at the drop of the hat. The James Gang of outlaws were ranging all over that region, robbing banks and railroad trains, killing bank cashiers and any bystanders who might get within range of their guns. Frank and Jesse James lived at Kearney, Mo., and most of their gang—the Millers, Shepards, and Younger boys—were recruited near there and had served in Quantril's army. They were desperate men, dead shots, could ride a horse better than a race rider, and they knew where to go when in need of a new mount. They had friends and comrades in every rural community in northwest Missouri, and, if wounded, could lay up for repairs and be ready for the next bank holdup.

The Maysville Bank having grown to be a substantial institution, Captain Ewart determined to construct a real bank building. The erection of a banking house in those days and in that section of the country was an undertaking radically different from bank construction of today. Walnut logs were cut and sawed up into lumber of the required rough dimensions, and a kiln was put up to dry out the lumber.

An old English cabinet maker, named Edwin Davies, was engaged to make the fixtures, which were entirely of heavy walnut, and it took him over a year to complete his part of the work, but today, over fifty years afterward, they are in use in the same building—still beautiful and in perfect condition, and will last indefinitely.

The bank has doors, frames, baseboards, joists and sills of walnut, and is as solid now as when the building was first erected. Back of the counters was constructed a heavy vault, and around that was laid heavy two by four inch oak planks, spiked together flat—a fortification that reached to the ceiling, having portholes inside, and along the walls were shelves on which rested pistols, rifles and ammunition. The heavy vault door, when opened, could be thrown around and the handle turned into a catch, leaving a crack about two inches looking into the vault. Thus a person behind the door with a rifle had direct command of the safe inside and was protected from all sides. A robber who walked inside of the vault would have been in a death trap.

The captain had a standing offer of $2,000 for a dead bank robber or $1,000 for a cripple, which reward stood for forty years without a claimant. Several times bands of bandits inspected the fortified bank and then wisely moved on and robbed some other institution. The reputation of the owner as a fighting banker protected his bank from the outlaws.

Pistol Practice Every Day

AN expert pistol shot, Captain Ewart practiced almost every day for twenty-five years. My father used to humorously declare that he had killed most of the timber for several miles around Maysville, and that some day they would melt up the trees for the lead he had fired into targets placed on the trunks.

After the Civil War there were large tracts of land owned by non-residents lying all over Missouri and Iowa. Taxes becoming rather high, Captain Ewart decided to buy all the cheap land he could get. It was his practice to go over the records, make out a deed and go to New Orleans, Michigan, or wherever an owner might live, and buy the land for a song.

Often he would have difficulty in locating his purchases owing to the wildness of the country. Many times, when he had found an established corner of a tract of land he had purchased, he would measure the distance around one of his buggy wheels, tie his handkerchief to a spoke, figure out about where his corner should be and drive in a direct line, counting the revolutions of the wheel as he went, and thus locate the boundaries of his purchase.

He would buy the land at $5 per acre, sell for $10 per acre, make the purchaser pay $5 per acre on the purchase price, and give a mortgage on the land for the remainder. Then he would again start out buying more land with the cash.

About 1890 Captain Ewart made a trip to the battlefield of Shiloh. There he found an old lady living who had collected a lot of cannon shells. She had them piled up around her flower bed. He purchased several of the different sized shells and shot and shipped them home. One day Captain Ewart built a fire in a vacant lot back of the bank to melt the lead around the cap of one of the unexploded shells that had been on Shiloh field for nearly thirty years. The shell exploded and nearly wrecked a barn, but did not hurt the captain. He regarded that explosion as ample evidence of the good quality of the powder with which they had been loaded.

The First Bank Examiner

THE private banks chartered at the time of which I write could engage in any kind of business; and very few of them had more than $10,000 capital. They did as they pleased and had no examination of any kind. I well remember the first time a bank examiner came to see us. Captain Ewart took the stand that no one had any right to question his way of doing business, and threatened to throw the examiner through the window. We persuaded the captain to allow the examination, the result of which was so satisfactory to the department that an official wrote him a letter saying his bank was in excellent condition. The captain, while appreciating the letter, said: "Hell, I knew that all the time!" After a time he became reconciled to the examinations and declared that the law providing for them was a good law.

I remember the examiner, Gordon Jones,

"I don't want any doubting of my figures in a bank book"

found we had $30,000 in gold coin on hand. Instead of opening the packages, he cut the paper wrappers to assure himself each contained $500 in gold. Another year Jones came back and, in counting our money, came across the same gold, and remarked that he recognized the cuts he had made in the packages, showing the bank was not very hard up, as we had not touched the $30,000 in gold in the year. During all the time the little bank had about $100,000 in cash in the vault.

My father, Middleton N. Jones, at one time county treasurer, was called on by the county court to show the money he had on hand. He had his bank book balanced and presented it to the court, which was composed of good, honest farmers.

They said: "We see your book shows you have $40,000 on deposit in the bank, but how do we know the bank has the money?"

My father went back to the bank and told the captain of their doubts.

"We will show them," said the old banker. "You go get a bushel basket and we will take over the money and they are going to count every cent of it!"

My father brought in the basket and they piled in the packages of currency, most of them in five-dollar bills. The captain, carrying the basket filled to the top with the $40,000, walked into the court room and emptied the basket on the table, around which sat the judges. "Here is the cash," he said. "Now I want you to count it to see that we have it. I don't want anybody doubting my figures in a bank book."

They began to thumb over a package or so, decided it would take too long, and so they took the captain's word for the money.

News of this incident went all over the country and placed the little bank in a more favorable position than ever.

The county now believed it could always get its money on call. This custom ran along for years, and banks found it good business to loan their money and keep less cash reserve, as it was easy to ship in money as needed. When the panic came on, however, we had very little money on hand and were compelled to go on a script basis like every other bank, yet after the first week or so we steadily gained in cash and had no trouble to satisfy everyone wanting money.

After things settled down, Captain Ewart said: "Never again will they catch me without plenty of cash." For ten years he always had a big bunch of currency in his private vault, and about once each year would take it out and spread it out in the sun to dry out, as it would get mouldy lying in the damp vault.

At the back of the bank he had his private rooms with a well of water inside. On the drying out days the money would be placed on the window sills in his private rooms. Sometimes he would go out in front, get into a political argument and forget all about the money he had laid out to dry. Then we would break in on the argument and he would run back, gather up the packages, lock them in his safe and forget about them for another year.

This sterling character had other peculiarities, and one was in the matter of clothing. He kept his clothing in trunks, piled up around his rooms. As one filled up he would buy another. At his death he had nine or ten large trunks filled. In one trunk he had 130 pairs of woollen socks. At times he had thirty or forty new linen shirts on his hands.

On somewhat the same principle he doctored himself, saying: "If a spoonful of medicine is good, why not take a whole bottle at once?" I have often seen him drink a full bottle of patent medicine. Built like a giant and with a head almost twice the size of the ordinary man, nothing seemed to hurt him.

After the death of Captain Ewart we took out a new charter for the Maysville Bank, the last private bank ever chartered before the passage of a law prohibiting institutions of this kind. Most of the old ones have either merged or become state or national banks.

A private bank has its good qualities, as every owner was liable to the full amount of his worth to make good any losses. There was no stock issued, and a new charter was necessary for any change in ownership.

Keep Them Out

"EACH year," says E. D. Holly, Chief Deputy of the California State Bank Department, in the superintendent's current bulletin, "you are spending a portion of your earnings in advertisements of almost every kind and description to attract savings to your bank, but how much is spent to prevent these savings from being dissipated by unscrupulous and dishonest stock salesmen? What does it avail you to spend years in aiding some client to build up a savings account in your bank that will be dissipated in a moment in a fraudulent stock purchase?"

A good ally to banking in protecting a community against fraudulent investments is a Better Business Bureau. It is an institution that is needed in every city, and its very presence has an element of protection because the crooks prefer fields where they are not likely to meet with intelligent attack and merciless exposure.

A good piece of literature for every bank to distribute, not spasmodically, but to keep putting out year after year, could be fashioned out of the tell-tale signs by which fake promotions may be detected, such as the big earning that is promised—and however big it may be, could be doubled at no greater cost than that of changing the figures, since payment is never to be made; the "hurry-up" pretext; use of prominent names, and the dangers of flowery language and pictures not warranted by facts.

Wall Street's Bone Yard

Many of the Skeletons of Finance Are Rattled for the Last Time In an Old Securities Auction House In Lower New York. Sharp-eyed Bargain Hunters Go There Hoping to Find In the Debris Things of Value Overlooked By the Street's Moppers-Up.

THE day is Wednesday, the hour 12:30 p. m., the scene a long, high-paneled room in lower New York, differing little from a long row of similar buildings on historic Vesey Street. A group of possibly half a hundred men, buzzes with whispered conversation and what in some cases appears only partially suppressed emotion. They are of all classes and bear the mark of many estates. Here are bankers and brokers on special business of their own, standing aloof and abiding their time. Here are sharp-eyed bargain hunters, seeking a quickly turned dollar, whispering and gesticulating. On the fringe of the crowd are the easily identified hangers-on.

A tall, distinguished looking gentleman, carrying a bundle of papers under his arm, mounts the little pulpit-like rostrum, raps the table in front of him with an auctioneer's gavel. The crowd edges in a little closer, and the men who are there on business refer to a paper corresponding to that held by the gentleman on the rostrum.

"Gentlemen," the man on the rostrum begins, "we will now sell Lot No. 1 of securities for whom it may concern." There is a rustling of papers as members of the crowd examine "Lot No. 1." It proves a choice assortment of what Wall Street terms "cats and dogs"—nearly worthless, or entirely worthless, but nevertheless beautifully engraved stock certificates. Possibly they are the dregs of a rich man's safety deposit box. Certainly, it requires no stretch of the imagination to believe that "Lot No. 1" represents unfilled hopes.

What am I bid?" inquires the auctioneer briskly.

Five dollars for the lot," comes an answer.

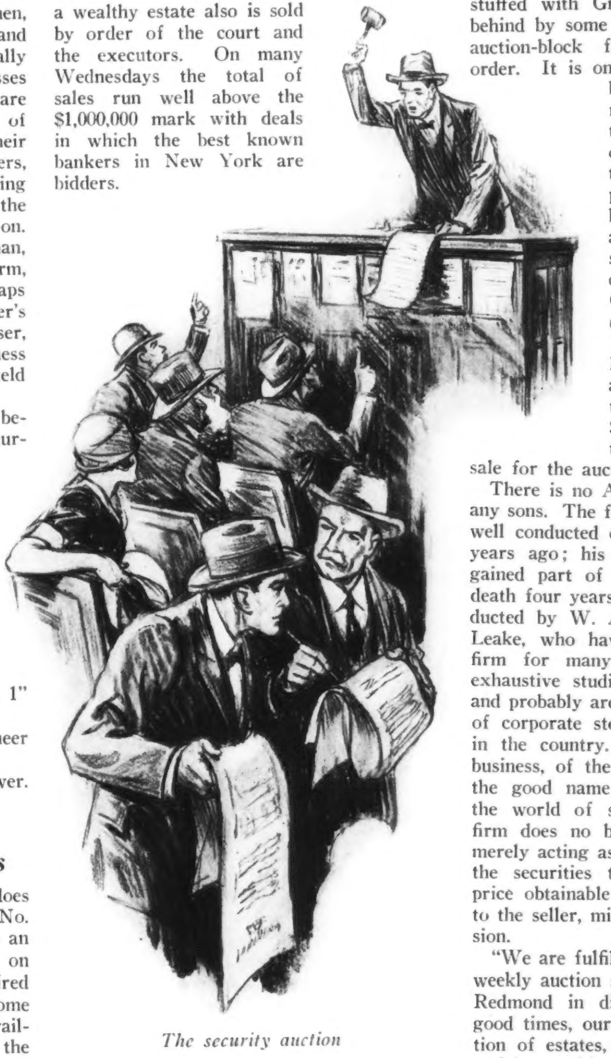
"Seven dollars," says another voice.

"Seven and one-half," from another.

No Haggling With Bidders

THE auctioneer takes his time. He does not haggle with his bidders. "Lot No. 1" finally is knocked down for $9.75 to an unshaven individual with a soiled derby on the back of his head. He has acquired stock certificates with a face value of some $25,000. Oil shares, mining stock, a railroad issue here and there comprised the bundle. His name is taken by a clerk and the auctioneer passes on to "Lot No. 2," and so on down his list until the last security on it, good, bad or indifferent, has been sold to the highest bidder. It is cash down and carry away your purchase.

The scene is the weekly securities auction of Adrian H. Muller & Son, at 56 Vesey Street, New York. There is none other just like it in the world. It is the shore on which many a shipwrecked security is finally beached after a tempestuous career; the final door of exit for corporations of all sorts. But it is not only the "cats and dogs" of Wall Street which finally pass out of circulation here, for many a wealthy estate also is sold by order of the court and the executors. On many Wednesdays the total of sales run well above the $1,000,000 mark with deals in which the best known bankers in New York are bidders.



The security auction

Here, at 2½ cents per share, passed out of circulation the shares of the now notorious Mammoth Oil Company, organized to hold the properties acquired in the Teapot Dome naval reserves lease, the reverberations of which are still heard from Washington and the courts. Here, at a few dollars per share, were scattered to any who would bid, the security remnants of the Florida land boom.

There Are Big Days, Too

BUT it is not always the shares of frowzy estates which demand the bidder's attention. Many a safety deposit box, stuffed with Grade A securities, and left behind by some rich investor comes to this auction-block for distribution, on court order. It is on those days that every big bank in Wall Street is represented. They bid briskly, too. Three years ago a block of shares of the First National Bank of New York passed from an estate to the hands of investors, via this auction method, at $2,780 per share. Seven years ago, by order of the Surrogate's Court in New York, a block of 9000 shares of Bankers Trust Company stock was liquidated for the heirs of a wealthy stockholder in this manner, bringing $3,500,000, which marked the high point in a single sale for the auction room.

There is no Adrian Muller, nor are there any sons. The founder of the successful and well conducted establishment died forty-five years ago; his son, from whom the firm gained part of its name, followed him in death four years later. The business is conducted by W. A. Redmond and Henry J. Leake, who have been identified with the firm for many years. They have made exhaustive studies of the security business and probably are as well versed in the value of corporate stocks of all sorts as anyone in the country. They are proud of their business, of the success it has had, and of the good name it has always enjoyed in the world of securities. Incidentally, the firm does no buying or selling for itself, merely acting as agent-auctioneer, delivering the securities to purchasers for the best price obtainable and remitting the proceeds to the seller, minus the auctioneer's commission.

"We are fulfilling a definite function with weekly auction sales of securities," said Mr. Redmond in discussing his business. "In good times, our auctions reflect the liquidation of estates, the end of legal actions in which securities are sold by court order and in cases where banks or trust companies are obliged to liquidate collateral. In times of stress, we provide a place where companies may convert their securities into cash. Eighty per cent of our business is with Wall Street institutions, and we do business with banks, attorneys, and public authorities in all parts of the country. We operate under a license from the city clerk."

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Expanding Credit Further Undermined

By GURDEN EDWARDS

Outward Moving Tide of Gold Rose to Record Heights in March. Efforts for Month Aggregated $93,000,000. At the Same Time There Occurred New Expansion in Volume of Bank Credit. Stock Market Seemingly Ignored Important Factors.

FOLLOWING a lull in gold exports from the United States through January and February, the outward movement rose again in March to historic heights. The outflow for the month was $93,000,000 and set the greatest figure ever recorded for a similar period in the financial annals of the country. Simultaneously with this renewed undermining in the already notably contracted gold basis of the nation's credit structure, which had previously lost more than $200,000,000 in reserves in recent months, came a reexpansion in the volume of bank credit. This was caused both by the biggest expansion in commercial loans reported for a corresponding period in five years and by speculative and investment operations playing a large part in the greatest burst of stock market activity in the history of Wall Street.

The market recorded a succession of four-million-share days with rising prices—and it is not so long since a succession of mere one-million-share days was ample cause to excite special comment. These facts are bound in with especial significance in the general banking credit structure. On the one hand it has been stock market loans and investments in securities that have constituted important factors bringing about the present extent of expansion in the credit structure at the same time it was undergoing a substantial weakening of its gold basis. On the other, it is in credit conditions themselves that there is to be found at least a part of the explanation for the stock market boom.

The tremendous volume of buying in the stock market represents in some aspects what might be called an almost panic effort on the part of investors to get away from the specter of the continuing fall in yield on investments that is in prospect. This prospect is due to the facts that while the supply of capital for investment will doubtless continue to grow, the demand for capital is liable to slacken. In fact, an over-supply of money is already manifest. This has brought about a rapid and extensive absorption of the floating supply of stocks in the market through purchases by investors acting on the theory that securities even at their present high levels offer the only hope of escape from the inevitable shrinkage of income that is bound to result from low yield investment later. This shortening of the floating supply of shares in the market in turn was largely accountable for the great bull campaign that developed in the face of bearish sentiment and doubt as to the business outlook in general.

Apparently Overlooked

SO headlong has this movement on the stock market been that apparently such an important factor as the rapid increase in the rate of contraction of the nation's gold reserves has received little attention there. Also equally little attention has seemingly been accorded the fact that, if investment stocks make good the hope placed on them for satisfactory dividends during the coming year, this also means that business must be better in the future than in the recent past and that expansion of trade and manufacture will put larger demands on the bank credit supply for commercial purposes. The interest of the stock market, which is now engrossing so large a share of commercial bank credit, in this angle of the matter is obvious. It seems to imply that either inflation, or a curtailment of the amount of commercial bank credit granted for speculation and investment, is bound to eventuate should swelling demands change present surplus credit conditions.

In fact, gold contraction and credit expansion brought about a gradual advance in current money rates during March.

A review of what has happened in the nation's bank credit structure in recent months, as shown by the reporting member banks of the Federal Reserve System, is pertinent at this point.

First regarding gold. As pointed out in previous articles in this magazine, a sudden outward movement of gold from the United States began in September, 1927, after many months of an unbroken inflow, and in the four months to the end of the year about $141,000,000 above imports flowed out of the country. In the same period there was removed from the nation's gold stock through earmarkings for foreign account, $82,000,000. In the last four months of 1927, therefore, the reduction from these two sources was $223,000,000. In January and February, 1928, the loss of gold through exports was considerably slower, but nevertheless subtracted another $20,000,000. Then in March came the added net new losses estimated at $57,000,000, allowing for previous earmarkings. Thus, in the seven months since September, 1927, the losses of gold through physical export and earmarkings have run to about $300,000,000.

These losses are reflected in the figures of the Federal Reserve banks. At the opening of September the gold reserve held by them amounted to $2,998,000,000. On March 28, 1928, this figure was down to $2,760,000,000, a loss of $238,000,000, or almost 8 per cent. Subsequent to March 28 added exports occurred and doubtless are reflected in later Federal Reserve figures not available as this is written.

Notable Credit Expansions

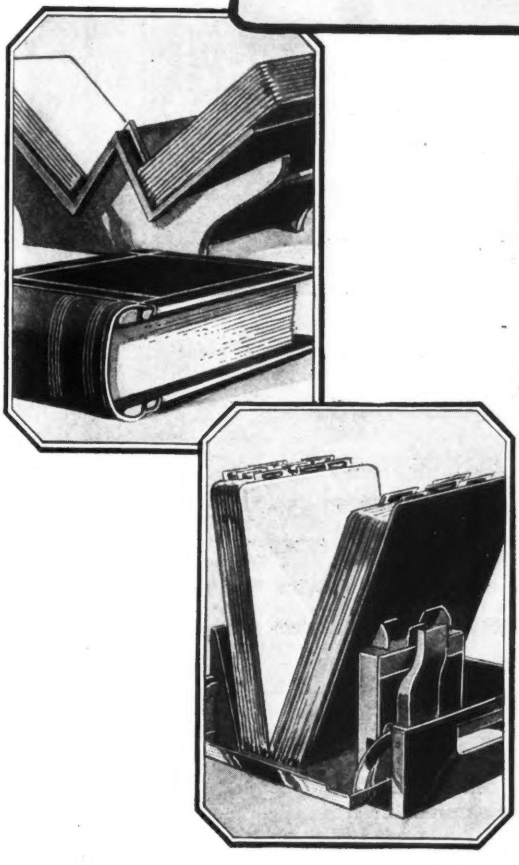
WHILE these marked contractions in gold reserves were going on during this seven months period since August, and especially during the past month of March, notable expansions were occurring in the various elements of the credit structure as recorded by the reporting Federal Reserve member banks. The average level of their total loans and investments during August, 1927, the last month before the gold export began, was $20,600,000,000, and in December the average level was $21,700,000,000, or an increase of over $1,000,000,000. The major factor bringing about this expansion was an increase in loans secured by stocks and bonds, that is, chiefly for Wall Street purposes. The second factor was an increase in investments on the part of these banks. The smallest factor was an expansion in commercial loans, which accounted for only about 20 per cent of the total rise.

On January 4 of the present year, the total loans and investments of the reporting banks reached a peak of $22,060,000,000, but since that date there was an almost unbroken contraction in this figure until February 21, when it stood at $21,580,000,000, a drop of $480,000,000. This contraction was wholly due to a drop in loans secured by stocks and bonds which decreased by $510,000,000, reflecting stock market reaction preceding the March boom. Commercial loans also contracted up to March 21 by $70,000,000 as winter business slumped, but investments rose by $100,000,000, wiping out part of the contraction recorded in secured and commercial loans. It was during this period of credit contraction that there also occurred the marked slump in the rate of gold exports noted above.

In recent weeks, however, during which there has been notable revival in the movement of gold leaving the country, there has come likewise a marked re-expansion in the credit of the reporting member banks. Loans and investments rose between Febru-

(Continued on page 842)

BAKER-VAWTER KALAMAZOO



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Brokers' Loans Hearings

By H. E. SARGENT

Though the Senate Committee on Banking and Currency Has Probed in Many Directions, It Has Failed to Find an Answer to the Question, "When Are Brokers' Loans Too High?" Several Surprises Developed in Hearings. New Legislation Unlikely.

BROKERS' loans bid fair to become as answerless a question as the ancient query of "How Old Is Ann?" Formal hearings by the Senate Banking and Currency Committee have explored almost every conceivable connection between credit and stock market operations, but there still remains unanswered the question of "When are brokers' loans too high?"

Neither the Federal Reserve Board nor any of its members has gone on record as naming the figure which represents an over-expansion of brokers' loans—the loans to brokers and dealers secured by stocks and bonds which constitute the sinews of market activity. Nor is there any likelihood that such a figure will ever be fixed. Obviously, the Federal Reserve System can never commit itself to designating the point at which undue speculation can be considered to obtain in the stock market.

Nevertheless, the Federal Reserve System can, and does, exercise its power to contract the amount of Federal Reserve credit going into brokers' loans whenever it deems such action warranted by circumstances. This fact was one of the high points of the hearings before the Senate Banking and Currency Committee early in March on the proposed LaFollette resolution calling upon the Federal Reserve Board to restrict to a minimum the amount of credit available for financing stock market operations.

A total record of $3,800,000,000 of brokers' loans reached during January prompted the LaFollette resolution. The idea was that something ought to be done about it and that Congress was the proper person to do something. However, the question of a method of restricting loans to brokers presented difficulties to more competent bankers than most members of Congress, so the solution was put up to the Federal Reserve Board.

Surprises in the Hearings

HEARINGS on the resolution developed several surprises. Not only would no one put his finger upon the figure that represented excessive brokers' loans, but none of the witnesses could see any reason for interference by Congress in a situation which the Federal Reserve System was fully able to handle without advice conveyed by means of new legislation. It was made clear to the committee that the Reserve System had acted to reduce the amount of credit going into the Stock Exchange, both by open market operations and through an increase in discount rates, with the net result that while there had been some decrease in the total of brokers' loans, through reduction in the amount of accommodation extended by banks, this decline had been very nearly offset by increased funds placed in the call money market by corporations and individuals.

The only justifiable conclusion to be drawn from the expert testimony given before the Senate committee is that there is no competition for credit as between commerce and industry and the stock market. There is an abundance of funds in the country. When the banks cannot find uses for their funds at home, they send them to New York to be put out on call. In a sense, this constitutes a sort of liquid reserve. As the credit demands of business increase, the amount of bank funds in the call money market decreases.

But in the recent situation which attracted the attention of Congress, non-bank lenders stepped into the call money market as the banks stepped out. Brokers' loans by "others," as they are technically called, are placed in the market by investors and investment agencies, by corporations having surplus cash, and by foreign banking agencies. These loans represent temporarily idle funds whose owners wish to employ them in the street rather than to keep them on deposit with banks or to invest them in securities. Short of a drastic contraction of the general credit structure, the Federal Reserve System clearly has no power over the use to which "others" wish to put their funds.

Better Not Meddle

THE committee hearings got under way with a presentation of contrasting academic views of the brokers' loans situation. Dr. H. Parker Willis, of Columbia University, declared the high volume of brokers' loans to be a serious menace to the financial stability of the country. Testimony by Prof. O. M. W. Sprague, of Harvard University, challenged this theory, the Harvard professor seeing no danger in the brokers' loans situation, and possibly serious inflation were the excess funds now used by the stock market forcibly put to work throughout the country.

Both professors, however, agreed on one point—namely, that it would be better for Congress not to meddle in the matter and to leave the handling of such problems to the unrestricted judgment of the Federal Reserve System. At the end of March there were no indications that the Senate would disregard this advice.

The appearance of Roy A. Young, of Minneapolis, the new governor of the Federal Reserve Board, before the committee was the high light of the proceedings. His analysis of the situation had been awaited by bankers, brokers, and the interested public as a guide to a clear understanding of the so-called brokers' loans problem. The new governor of the Federal Reserve Board covered all sides of the question, and the impression of his conservative statements was visible upon the members of the committee.

Mr. Young made it plain that he spoke for himself and not in behalf of the Federal Reserve Board. Thus, the Federal Reserve Board, as an agency, has expressed no opinions on the brokers' loans problem. He told the committee that he had made a personal investigation of the brokers' loans situation, and as a result had reached several conclusions entirely satisfactory to himself.

He found there was no question as to the safety of these loans. He found no evidence of a denial of accommodations to agriculture, commerce, or industry by reason of the volume of credit going into brokers' loans. Looking into the question from the standpoint of whether brokers' loans are a part of the necessary credit structure of the country, or based entirely upon unwarranted speculation, he found the answer could be made in both ways. A part of the brokers' loans account is a legitimate function of credit operations at the present time, but that much of it, which is based on marginal accounts, borders closely on speculation.

"From all I can observe," said Governor Young, "there has been a tremendous expansion of bank credit, some of it in brokers' loans and the balance in other investments. I cannot, however, discover anywhere that commerce and industry has been denied credit for the benefit of making these loans. Investment credit has developed in this country with enormous haste.

Action Has Been Taken

"IF there is any action that can be taken to arrest the expansion of credit, it has been taken by the board, for it has taken $300,000,000 out of the market since November through the sale of $150,000,000 of government securities, and the failure to offset 'ear-marking' or exportation of $150,000,000 in gold, and through the raising of the rediscount rate in all of the districts. I am not prepared to say whether brokers' loans are too high or too low, but I am

(*Continued on page* 840)

Helping Nations Over the Rocks

Cooperative Credits and Loans Have Enabled Eight European Countries to Regain Their Economic Independence and Revert to a Gold Standard. The Move to Rehabilitate France in a Financial Way Already Begun. Uncle Sam a Friend to Them All.

IN 1914 the United States was in debt to foreign investors to an amount estimated at $5,000,000,000; in 1928 the remainder of the world is in debt to the United States, on account of capital investments, to the extent of $14,500,000,000. This transition within the short period of a few years has never been equaled in history. There were unusual circumstances which made it possible.

The Department of Commerce has estimated the net nominal value of new issues (the refunding issues have been subtracted) since the World War to have been as follows:

1919—	$ 562,324,400
1920—	540,093,357
1921—	631,007,880
1922—	682,277,984
1923—	413,662,100
1924—	878,000,000
1925—	1,031,207,000
1926—	1,134,659,650
1927—	2,071,954,109*

*Estimated by Dr. Max Winkler, vice-president, Berton, Friscom & Co., Inc.

A casual glance at this table, when considered in connection with business conditions existing in the United States and world events at the time, will afford an interesting commentary upon the foreign relations of this country. From it may be gained an inkling of what may be expected of the future in the way of international credit controls and political protection for the export of capital.

Foreign loans grew very rapidly up to 1923, these loans being largely for the account of needy governments. In 1922, however, Greece met reverses in the field against Turkey. As a result there was arranged a compulsory interchange of Greek and Turkish minority populations, and Greece faced the difficulty of caring for over a million refugees on her own soil. She appealed to the League of Nations, and it sponsored a loan of from $15,000,000 to $30,000,000, to be secured by the pledge of specified Greek revenues. An International Refugee Settlement Commission, composed of four members, was established to handle the revenues and expenditures of the loan. It was floated internationally and was represented by a flotation in the United States in 1924 of some $11,000,000, nominal capital, for the Greek government. The loan matures within forty years, bears 7 per cent interest, and was sold at 88.

The Case of Austria

IN 1922 Austria was on the verge of economic and social disintegration. In the emergency the League was appealed to, and after some discussion a protocol was signed by Austria, Great Britain, France, Italy and Czechoslovakia which led to certain needed fiscal reforms. Also a loan was negotiated to be secured by the gross receipts of the Austrian customs and by the revenues from the tobacco monopoly. An administrator of finances for the country was named by the League.

Prior to this the United States held a lien against Austria on account of supplies for relief in 1919 and 1920, amounting now to $24,055,708.92, which lien was subordinated for the purpose of permitting the reconstruction loan of 1923. Denmark, France, Great Britain, Italy, The Netherlands, Norway, Sweden and Switzerland at that time likewise subordinated their liens against Austria. Among the 1924 issues floated in the United States was one for $25,000,000 for Austria at 7 per cent for a term of twenty years.

The original lien held by the United States was not met when it matured in 1925, and was consequently extended. Now (1928) it is proposed to raise a loan of some $100,000,000 for the purpose of rehabilitating the railway, telegraph and telephone systems of Austria, and the national liens, it is proposed, shall be subordinated again, that this necessary financing shall go through.

Hungary's Difficulties

IN 1923 the aid of the League was for a third time invoked, in this instance for the benefit of Hungary. A commissioner was named, and an international loan floated, the revenues of the country proving adequate guaranty. Two loans for the account of Hungary were sold in the United States in 1924. The first was for $7,500,000 at 7.5 per cent for a term of twenty years, whereas the other, for $1,500,000, was that part of the loan originally allotted for sale in Hungary but later offered in the United States.

The year 1924 proved very significant in the foreign investment field, and had it not been for the almost universal willingness of the nations to lend their credit and in many ways assist in the financial rehabilitation of the weaker countries, there would have been a different story today. It marked the setting up of the Dawes reparations plan for Germany, thereby ending, at least temporarily, the impassé which had grown up. Under that plan an international loan of 800,000,000 gold marks was extended Germany. An issue of $110,000,000 was floated in the United States for the account of the German government in 1924, this loan carrying 7 per cent interest and being for a term of twenty-five years. With a part of the proceeeds from this loan, gold was purchased from the Federal Reserve banks, and $45,000,000 of the yellow metal shipped during 1924 and 1925.

Without this international cooperation, it is unlikely that such expeditious financial recovery of Europe would have come about after the war. The funding of the obligations of some of the weaker powers certainly could not have been accomplished through private loans. But even then, after the economic lives of the countries had been preserved in this manner, it was quite another thing again to reestablish the currencies upon a stable gold basis. This brings us to the second stage of the negotiations—the efforts to reestablish the gold standard internationally.

In June, 1925, the Federal Reserve Bulletin announced that two separate credits had been established in the United States, one by the British government and one by the Bank of England. A credit of $100,000,000 was arranged by the British government with J. P. Morgan & Co. and a credit of $200,000,000 by the Bank of England with the Federal Reserve Bank of New York in participation with other Federal Reserve banks and with the approval of the Federal Reserve Board. Under this arrangement the New York Reserve Bank undertook to sell gold on credit to the Bank of England at a rate 1 per cent above the prevailing discount rate. A balancing credit in pounds sterling was carried on the books of the Bank of England which was used from time to time in the purchase of eligible sterling commercial bills. A similar arrangement was made by the British Government with J. P. Morgan & Co. With such a credit as a backing, England went on a gold basis, removed export restrictions on gold and reestablished the pound sterling upon a firm basis.

In January, 1926, the Federal Reserve Board announced a similar arrangement had been made with the Belgian National Bank by the Federal Reserve Bank of New York. At that time offers of cooperation with the Banque Nationale de Belgique had been made by the Bank of England and other European banks of issue. So Belgium reestablished her currency in international exchange by and with the assistance of other nationals. Belgian currency was reestablished on a gold basis in October, 1926, following a rigid fiscal reform on the part of the government.

Other Dark Spots Remained

THESE joint aids brought relief to England, Germany, Belgium, to Austria, Hungary and to Greece, but there remained some rather dark spots in the financial life of Europe. Notable among them were France, Italy and Poland. In October, 1927, an international arrangement was made to bring succor to Poland. An international loan to an amount of $72,000,000 was ex-

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The Proposed Investigation of Public Utilities

By GILMORE IDEN

A Billion and a Quarter in New Financing Last Year and Perhaps a Billion and a Half in the Coming Year Prompts a Query as to Mergers and Consolidations. Power and Securities Crossing State Lines, Congress May Act. Public Ownership Issue.

THE value of the entire electric power industry in the United States as of Dec. 31, 1927, was $8,700,000,000. It is estimated that something like $1,250,000,000 in new financing for electric power projects in the United States was undertaken during the calendar year just past, and that at least $1,500,000,000 new financing will be undertaken in 1928.

George B. Cortelyou, chairman of the Joint Committee of National Utility Associations, in a public address has estimated the value of investments in all utility companies at something like $17,500,000,000, or a sum which is slightly less than the national debt of the United States. These include utility companies of all kinds, water, gas, electricity, street railway, etc.

With the outbreak of war in Europe, which tended to send up prices of commodities throughout the world, the public utility companies were placed at a disadvantage. They found their rates regulated, the cost of necessary improvements and extensions sharply increased, and it was not easy to borrow money for the current needs.

More Scientific Financing

THE financing of public utilities since the war has been upon a more scientific scale. Physical properties were in numerous instances undervalued. Many of them were locally financed and managed, and expert knowledge in the enterprises was very largely lacking. With the investment of new money in public utilities came wider knowledge and more scientific knowledge of the business. Properties were modernized, local commissions considered them, and rates were placed on a basis of fair valuation. Profits in this era were made by the application of expert engineering experience and the revaluing of the properties.

What has happened during the past few years has been described by Prof. William Z. Ripley of Harvard in his book, "Main Street and Wall Street." His presentation of the subject was seized upon by those of liberal tendencies, who inadvertently furthered the cause of public ownership. Across in Canada, the radicals echoed, is a government-owned and operated power project which sells electricity at cost to the citizens. Government ownership is practiced successfully in Europe, they added. The arguments were echoed in Congress.

Senator George W. Norris of Nebraska, who handled the Muscle Shoals matter in the Senate, has accused the "power interests" of attempting to create a monopoly and of trying to get control of the project at Muscle Shoals, Tennessee, constructed by the government originally for the purpose of producing nitrogen from the air. He pointed out that in all hydroelectric projects the primary power is the power generated at low water. All projects are capable of producing greater power at high water, but since it is not produced consistently and all the time, it cannot be disposed of with profit. This extra power is known as super-power. Different projects can be linked together, and the super-power from one plant sent to another plant that is operating on primary power alone. Electric power may be transmitted at least 300 miles with profit. The linking up of several projects, therefore, will enable the diffusion of the super-power, resulting in a larger profit and a larger capital saving.

But the development of super-power means there must be a monopoly, Senator Norris charges. If there must be a monopoly, he contends, it should remain in the possession of the public. He cited the case of the system in effect in the Province of Ontario, Canada, and also claimed a great saving to the city of Los Angeles through municipal ownership.

The debate which has been waged over the disposal of Muscle Shoals, therefore, is but representative of similar fights which may arise over each of the power projects brought before the government. Inasmuch as the plans for the control of the floods in the Mississippi Valley include the development of hydroelectric power, the debate may be renewed over that project. So it will be in the case of the Boulder Dam on the Colorado River, the reclamation project now being discussed for the Columbia River in the northwest, and the St. Lawrence River shipway project.

Deplores Mergers

SENATOR THOMAS J. WALSH of Montana, the author of numerous resolutions to investigate the so-called "power trust," deplores the movement toward mergers and the "buying up" of utility plants by holding companies and big operating companies. "Concomitant with the resurgence of the movement toward concentration," he said, "has come subsidence of the interest of the general public in the question involved. The results at best were disappointing, and more recent events adverted to have led to a feeling of utter helplessness and hopelessness."

Senator Walsh declares that within eleven years the sale of electrical energy in the United States has risen 300 per cent, and the energy developed has increased 450 per cent. And now this form of power is being used to "move giant loads, as in the hauling of trains or the hoisting of ore, and to operate the delicate implements employed in dentistry. Its generous use in all forms of industry is assigned by investigators from abroad, economists, business men, and representatives of labor organizations as one of the prime reasons for our supremacy in so many lines." Coincident with this rapid increase in electrical power development, the number of operating companies decreased. Within the four years from 1920 the number decreased from 6355 to 4827. This may be regarded as evidence of the increased efficiency resulting from concentration, although Senator Walsh cited it for other reasons.

During the period of rapid increased development of electrical power, which was also the period of amalgamations, four big operating companies came into existence. Senator Walsh has named them as the Middle West Utilities Co., the Samuel Insull Co., the Associated Gas & Electric Co., the J. G. White Co., the Cities Service Co., the Henry L. Doherty enterprises, the Standard Gas & Electric Co., the Bullesby Co. There are also the Consolidated Gas Co., the Electric Power & Light Corporation, the American Public Utilities Co., the American Light & Traction Co., the Electric Bond & Share Securities Corporation, the American Power & Light Co., the National Public Service Corporation.

Mr. Walsh has charged in the Senate that within one year the increase in capital obligations of the utility companies of the United States increased in a sum three times as great as was the value of the extensions made to the plants. This does not prove that the stocks of the companies are watered, because the securities outstanding in prior years, it is pointed out, were on properties then undervalued.

Doubts Efficacy of State Regulation

ALTHOUGH criticizing the holding companies and the tendencies toward mergers, Senator Walsh does not offer any

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What to Look for in Utilities

By CARL S. DAKAN
Professor of Business Administration, University of Washington

The Need for a Broader Field for Savings Bank Investments. A Summary of the Investment Qualities of Public Utility Bonds. Seven Important Features. Things to Consider in Formulating Laws to Extend List of Legal Investments. Conservatism Urged.

THE savings books of the country are enjoying a rapidly increasing fund of deposits accompanied by an ever increasing difficulty in loaning these funds in a way which meets all the requirements for safety, accompanied by a reasonably satisfactory yield. Relatively there is a decline in the demand for funds in some of the fields in which commitments have been made in the past, and the need for constantly widening the field of savings bank investment seems quite obvious. Funds accumulate, interest rates tend to decline, certain enterprises, such as the railroads, become stabilized and develop only with increased population.

The need for extension, does not, however, indicate the direction in which the extension may most advantageously be made, but there is a rather general consensus of opinion that the public utilities corporations have now reached a point in their development where many of their securities may well qualify under the most rigid tests insisted upon by the savings banks. Twelve states now permit savings banks to invest in public utility securities.

Seven Qualities

IN the many reports upon the subject the investment qualities of these public utility bonds have been summarized as follows, both by the bankers and by the corporations:

1. Water, gas and electric companies furnish community necessities. To be sure there are substitutes for gas and electricity but we can no more conceive a modern city without these necessities than we can a modern nation without railroads.
2. These utilities have enjoyed remarkable stability of earnings for many years. The most satisfactory evidence of this is to be found in a study made by the Department of Commerce based upon the reports of ninety-five large utility companies operating light, heat, gas, water, traction and power service in the United States. These figures show that the gross earnings in every year since 1913 have exceeded those of the year before. And that with two exceptions net earnings have each year exceeded those of the year before. In 1917 net earnings declined 2 per cent and in 1918 there was a further decline of 5 per cent. No other industry can make a better showing than that.
3. Public utilities are recognized by law and practice as publicly regulated monopolies. Except for Delaware, every state in the Union now has a regulating body with supervision over the operation of, and, in some states, the issuance of securities by utilities. The practical banker will readily learn to avoid loaning his funds in those states where regulation is slack and where for any reason it has been diverted.
4. The utilities employ a very limited amount of unskilled labor and for that reason they enjoy greater immunity from labor troubles than do most industries. Labor troubles to be sure have embarrassed the fraction companies in the past but the other utilities have been almost entirely exempt from this disturbing factor.
5. The utilities operate on practically a cash basis. Disturbed credit conditions do not ordinarily affect the prompt collection of their service charges. This is specially true of those utilities which sell their services to the home.
6. Not only are the utilities unaffected by problems of credit but from the nature of their business they carry no large inventories which demand adjustment during periods of price fluctuation. This is undoubtedly one of the prime factors in the fluctuations of industrial corporations. Only where the utility sells its services to the industries do the fluctuations of the business conditions affect it.
7. The risk on public utility bonds as measured by the per cent of all securities in default at any time compares very favorably with either the railroads or national banks.

Sound banking principles demand a degree of diversity in the investment of any large fund. The addition of these bonds to the holdings will aid the bank in securing a greater degree of diversity in its holdings.

Higher Present Yield

FOR the time being it is possible for the banker to secure a somewhat larger yield without any perceptible increase in risk on the highest grade public utility bonds as compared with eligible railroad bonds or the tax exempt municipal or government issues. In time we may expect this difference in the yield to disappear as the market for this type of security becomes broader. The fact remains, however, that any extension in the list of legal investments will have a tendency to increase the yield on the entire field. So long as the banks are restricted to a narrow field their demands will keep the yield low. Extend the list and the competition will be less heavily felt.

Still another advantage to the bank is the increased marketability of the best of these bonds over real estate mortgages. Many of these bonds are listed on the stock exchanges. The size of the issues tend to broaden the market and increase the active demand for these issues. In so far then as the safe savings bank demands a liquid secondary reserve these bonds would provide this very important addition to the investment holdings without in any way decreasing the fundamental soundness of the investment policy.

Where there are so many obvious advantages there must be some serious objections to making this type of security eligible or all of the state would provide for the inclusion of these bonds in the investment of the savings bank. There have been three objections raised against the public utility companies.

First there has been made a general charge that the public utilities are subject to political hazards, that there has not yet been any definite policy established with reference to the regulation of the utility. This objection has undoubtedly been true, but during the past eight or ten years a great deal of progress has been made in unifying the regulating policy of the different states. It is reasonably safe to say that the public utilities at the present time are subject to fewer political hazards than the railroads were at the time their bonds were made eligible for savings bank investment.

In the second place it has been contended that there is no stability within the industry itself. Figures already quoted will tend to show that the growth has been rapid and consistent and the utilities themselves are partly responsible for the feeling that exists with reference to their stability in the lack of uniformity in their published reports. Undoubtedly a large part of the feeling of lack of stability would be eliminated by having the public service corporation agree upon a uniform system of accounting and reporting.

Still another criticism that has been directed at the utilities in general has been the rapid growth of holding companies and the financial manipulation that has accompanied some of these large holding companies. Undoubtedly there have been companies that violated principles of sound investment in bringing together unrelated and uneconomical groups of operating companies, but it is somewhat difficult to see how this will affect the underlying first mortgage bonds of the operating companies themselves. It is quite generally agreed that the securities issued by the holding companies should, under no circumstances be included in the list made eligible for the savings companies unless these holding company securities are specifically secured by bonds of the operating companies which are eligible for savings bank investment.

It may be said that the public utility at the present time is undoubtedly going through that period of consolidation and amalgamation which was characteristic of the railroad during the period of 1895 to 1910 when the large railroad systems of the United States were being formed.

Fear of Diversion

THERE has also been evident a fear on the part of some opponents that the broadening of the legal field to include these public utility bonds would divert a large part of the funds now available for real estate mortgages into this field of security finance. This would undoubtedly be true if the only investments of the savings bank were real estate mortgage, but at the present time these banks have a large investment in Liberty bonds, municipal bonds and railroad bonds and it is quite obvious

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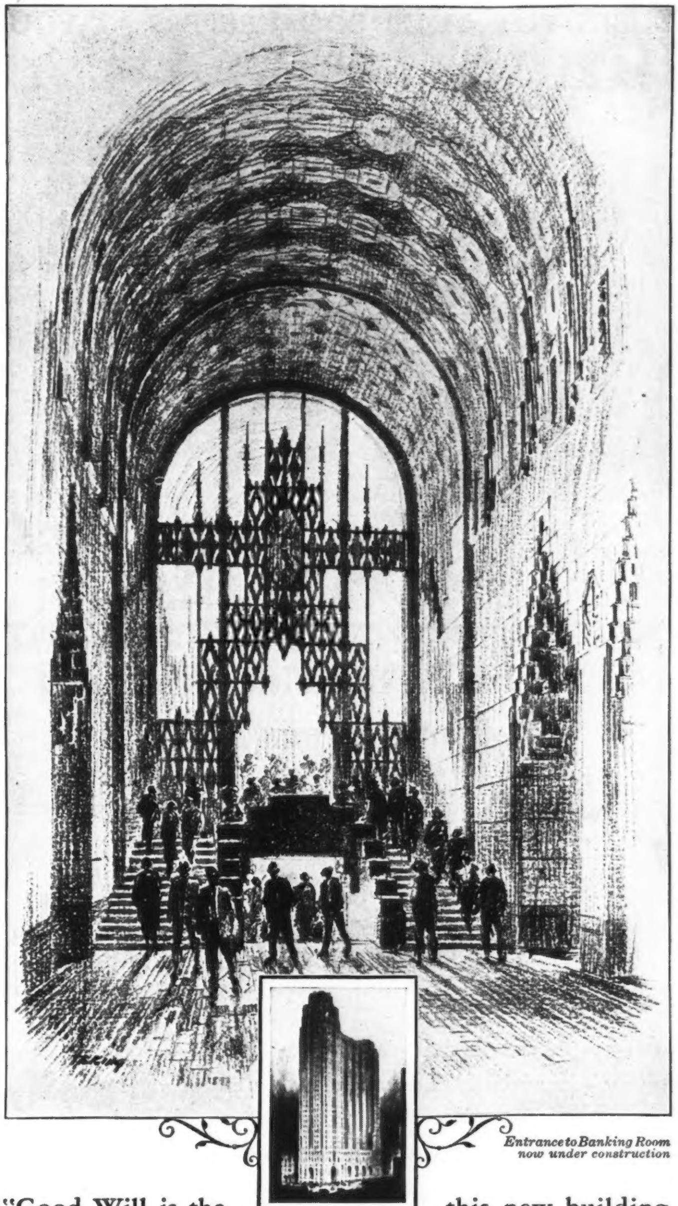

Entrance to Banking Room now under construction

LAMSON BABY TUBES PUT YOUR BOOKKEEPERS AT YOUR TELLER'S ELBOW

French Dollar Securities

By CHARLES F. SPEARE

France, from Present Indications, Will Soon be an Exporter of Capital. Her People Have Returned to Their Habits of Thrift. Savings and Commercial Banks are "Overflowing With Money." Never so Economical as Today. Control Gold Market of Europe.

ONE approaches the conditions surrounding French dollar securities from a different angle and with a more optimistic feeling than that held toward the external loans of Germany.

The problems of France today, assuming that the franc will be stabilized in May or June, are political rather than financial. This is the reverse of the German situation. France in a short time will be an exporter of capital; Germany must for years be a large borrower abroad. France is decreasing her loans in the United States. In March she paid off the last portion of the original issue of $100,000,000 eight per cent bonds. This reduces her dollar obligations to less than $360,000,000, or about one-third as much as those of Germany. She has only thirteen issues outstanding, two government, three municipal, five railroad and three industrial, compared with about eighty-five German loans in the United States. Nearly all are quoted at or above their call prices. Beginning with 1929, and extending over the next five years, half of these loans, representing $175,000,000, may be cancelled or refunded into others with a lower rate of interest. It is quite probable that the French people themselves will, meanwhile, take up a considerable portion of them. Germany will refund as she has the opportunity, but there are no present indications that she will have the capital with which to reduce the principal of her debt now in the hands of American investors.

Friendly Buyers

THE attitude of those in the United States who buy foreign bonds has always been more friendly to French than to German securities. This is due to traditions and to prejudice. France for over a century, during which she has been invaded and conquered and has suffered from internal strife, has always paid her debts. The readiness with which she met the demands of Prussia at the end of the Franco-Prussian War brought her a host of lifelong admirers. The fact that she was our ally in the Great War cemented these friendships. Although she seemed to be losing in 1917, there was a most generous response to the offerings in this country of French currency bonds. It was four years after the first French Government dollar loan was floated here that Germany sold her famous 7 per cent gold bonds, known as the Dawes loan.

I do not believe it inaccurate to say that Americans have purchased French dollar bonds as investments and German dollar bonds as speculations. This is to some extent proved by the fact that a constant shifting from one German issue to another has taken place. The German bond market has been in a condition of flux for several years. On the other hand, the market for French issues has been static ever since the franc touched bottom in the summer of 1926.

The political differences between France and Germany and affecting their external loans are quite marked. France has not the political stability today that is possessed by Germany. She has splendid statesmen in Poincare and Briand to develop and maintain her domestic and foreign policies. But the political life of a French leader is in the hands of more parties and divisions of parties than in any other country in Europe. National safety, even, is sometimes sacrificed to the interests of these factions. In Germany there is more homogeneity in politics and a greater willingness on the part of the people to be led into those paths that bring them to industrial and economic peace.

It is in their foreign relationships that France and Germany exhibit distinct political differences such as may in the future make most impression on French dollar loans. France has been active since the war in establishing friendships with countries in Europe that might assist her should she again become involved with Germany or have trouble with Italy. Her intimacy with Poland, politically and financially, is well known. So is it with Jugo-Slavia. She has recently been fostering a loan in the United States to Roumania. This may all be to her advantage or it may involve commitments that in a crisis might seriously affect the stability of her foreign credits. On the other hand Germany is playing a somewhat lone hand. The future of her external loans is not bound up in the destinies of a group of small countries occupying the most sensitive portion of Europe from a diplomatic standpoint and contiguous to the most militaristic power on the Continent.

Losses in Russia and Mexico

IN the years before the war France occupied a leading position in Europe as banker for other nations. Her people were of the saving kind. The banks of France were always full of money for investment. It was the French banker who suggested to the small French tradesman or farmer into what he should put his funds. A great portion of these funds went into French government securities, 3 per cent rentes among them. But too much was spread around the world in bonds that today would be regarded as highly speculative, as the government issues of Russia, Mexico, Turkey, Spain, Bulgaria and China. The war wiped out a good part of them. The losses in Russia and in Mexico have been enormous.

When the franc was sliding down toward the vanishing point in 1926 the French people became panicky and began to turn their currency into securities. They lost all faith in the franc, expecting it to go the way the German mark had gone. They indulged in all sorts of personal extravagances. Their mood was to eat, drink and be merry while they could. In July the franc fell to about two cents. After a series of ministries the coalition government was formed and the franc slowly began to recover. It was at this time that the French internal loans reached their lowest. The fours went below 8, the fives below 9 and the sixes to 10½. They are now 28, 34 and 38 respectively. It did not take many American dollars then to buy as large a sheaf of French currency bonds as one wished to carry away. The external loans, such as the recently retired government 8s, the 7½s and 7s, the various 6 per cent municipal loans, like those of Lyons, Marsailles, Bordeaux and Soissons and the industrials, sank to their lowest two years before when the French entered the Ruhr. Those were bargain days. The 8 per cents touched 90. The person who bought them then and held them to March 15 would have averaged nearly 13 per cent per annum on his investment. The City of Lyons 6s, preferred by some to French government loans because of the small debt of the municipality, dropped to 75. They are now 101, so the buyer of five years ago who still owns them could now take his profit and realize an annual average of over 13 per cent on the cost price. Many others would show only a slightly lower return. Had there not been a ban on the export of capital French nationals would eagerly have absorbed these foreign loans when they were at their lowest,

Back to the Old Frugality

SINCE the franc was stabilized, actually but not officially, the mental attitude of the French people toward their financial situation has slowly changed. They have again acquired the old habit of saving. Never have they been so economical as they are today. They have dispensed with all luxuries and with many comforts. If ever they have lived the simple life they are doing so now. Always having had a passion for saving and securing a competence for old age, but departing from it for awhile in 1925 and 1926, they have returned to the

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Making Safe Deposits Safe

By ELMER A. ANTES
Manager, Safe Deposit Department, Seattle National Bank, Seattle, Wash.

A Bank Must Not Divulge Any Information Whatsoever About a Customer. Access to Safe Deposit Boxes Should Be Granted On Properly Checked and Verified Signatures Only. No One Other Than the Customer Himself Should Ever Touch His Box or Keys.

ONE of the commandments of a well-conducted safe deposit vault is, "Thou shalt not divulge any information whatsoever regarding your customers."

Two policemen stepped up to the wicket one day with one of our customers handcuffed between them. "Does this man have a box here?" one of them demanded. The attendant parried the question by asking: "Did he say he had one here?" "No, but we searched him and found a safe deposit key, and we understand it belongs to this vault and here it is. We demand you open his box in the name of the law."

They were quietly but firmly told that we could do nothing for them under the circumstances, and that they had best get legal advice before attempting to go farther. They replied that our attitude was that of shielding a criminal, but finding they were up against a stone wall left abruptly, vowing they would soon be back and break open "that box with an ax if necessary." The next day our customer returned and explained it was a case of mistaken identity.

A short time ago a charming woman came into the vault and wanted to place her signature on her husband's card. She informed us that her name was Mrs. So-and-So, and that when her husband rented the box about two years previously he told her he had made provision for her to have joint access with him, but she never had found time to come down and sign the card before. She said she had forgotten to bring a key and that she was not acquainted with anyone in the bank. We told her we were very sorry, but we could not take her signature unless her husband were present to authorize it.

Changes Her Tactics

THEN she changed her tactics and said: "Would you mind looking up in your records to see if he has a box here, as I might be mistaken as to the bank?" This we told her we could not do, as we did not know her. This provoked her very much, so we said: "Suppose you had a box here and you wanted the fact kept a secret. Suppose you were having difficulty with your husband and he was suing you for a divorce, would you want us to tell him if he came in here inquiring whether you had a box with us?" She immediately saw our position in the matter and said she would return with her husband and have everything properly adjusted. When we picked up the morning paper on the following day, there was this woman's picture with headlines reading: "Suing for divorce."

Vigilance First

THE best advertisement a bank's safe deposit department can have, according to Mr. Antes, is a customer who is impressed by the rigid observance of the simplest precautionary rules in the operation of the vaults, guarding against haphazard access and the handling of boxes or keys of customers by employees. There can be no relaxing of the regulations for even the box renters who are personally and intimately known by the personnel of the vault. The customer's confidence must be obtained and held.

Commandment number two should read: "Thou shalt not grant access to safe deposit boxes except by signature, and then only when it had been properly checked and verified as to name and number."

A well-dressed man entered a safe deposit vault in Chicago on a busy day, presenting the key to a certain box. He was admitted to the box. About a month later a wild-eyed customer burst into the private office of the bank's president and fairly yelled: "I have been robbed of $30,000 in Liberty Bonds which I had in my safe deposit box."

"How can you prove that you had them in your box?"

"I can do that easily. They were purchased in your bond department on March 1, 1927. Your records will prove this, and your assistant cashier accompanied me and saw me place them in the box as it was by his advice I made the purchase.

The president said: "You know you have the only two keys that will open your box and it would thereby be impossible for anyone else to get into it."

The bank officials said they were sorry and that it was "just too bad." The customer started to file suit. Rather than to have its carelessness aired in court, the bank settled in full—$30,000 or 6 per cent on $500,000. A nice sum to write off on the profit and loss sheet for the year. Even had they fought the case and won, it would have been a terrible black eye.

In another bank, a gentleman of undoubted standing in his community and an officer in a large corporation, notified the president that $5,000 worth of bonds had been taken from his box. In this case, the president asked the customer the date on which the bonds had been placed in the box. His reply was January 10. The president called the vault manager on the phone, gave him the number of the box and asked for full information on that box since January 10. When this was done, the president proceeded to show his customer just how the vault was operated, and how it was absolutely impossible for any unauthorized person to get into that particular box. He showed him that besides himself only one other person had entered and that was his wife on May 24 and June 15. The customer left and came back later, very much crestfallen and ashamed. His wife on being severely cross-questioned had admitted that she had taken the bonds and sold them to pay bills long past due, bills for clothes about which her husband knew nothing. Incidentally, this bank president showed that the only record that will stand in a court of law is the signed visitation slip.

Commandment number three should be: "Thou shalt not touch a customer's box or keys after you have rented it to him. See to it that he alone handles them thereafter. Even though you build a vault as strong as a fortress and as impenetrable as the Rock of Gibraltar, what good have you accomplished if it is operated in a careless and negligent manner?

On a street car the other day, I heard two men discussing where they had their safe deposit boxes. The first man was thinking of changing his safe deposit bank because, whenever he visited his box he found the grill gate open. The identification cards were visible to anyone desiring to look at them and the place seemed deserted on entering the vault. The attendant would take his key, open his safe, hand him the box and leave the keys in the door. Then, when he returned, the attendant would take his box and lock it up for him, returning his keys. This man had a box here for ten years and had not objected to their type

(Continued on page 812)

YORK VAULTS

Safety is More Than a Talking Point

AFTER all, safety is an obligation. The security of funds entrusted to the care of a bank is just as important as their proper handling.

There is no comparative degree of safety. A vault is either safe or it isn't! And a vault that *isn't* safe doesn't belong in *your* bank—even though it may have been used for years without mishap.

York Vaults are the result of the best engineering brains and ability. INFUSITE—a development of the York laboratories—is an example of this preeminence in vault building.

The greatest banking institutions in the country today bear witness to York superiority. They confide their resources to the protection of York Vaults. You, too, will be interested in knowing what constitutes a secure vault. Write for full information.

YORK SAFE AND LOCK COMPANY
Factory and Principal Office
YORK, PA.

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MIAMI
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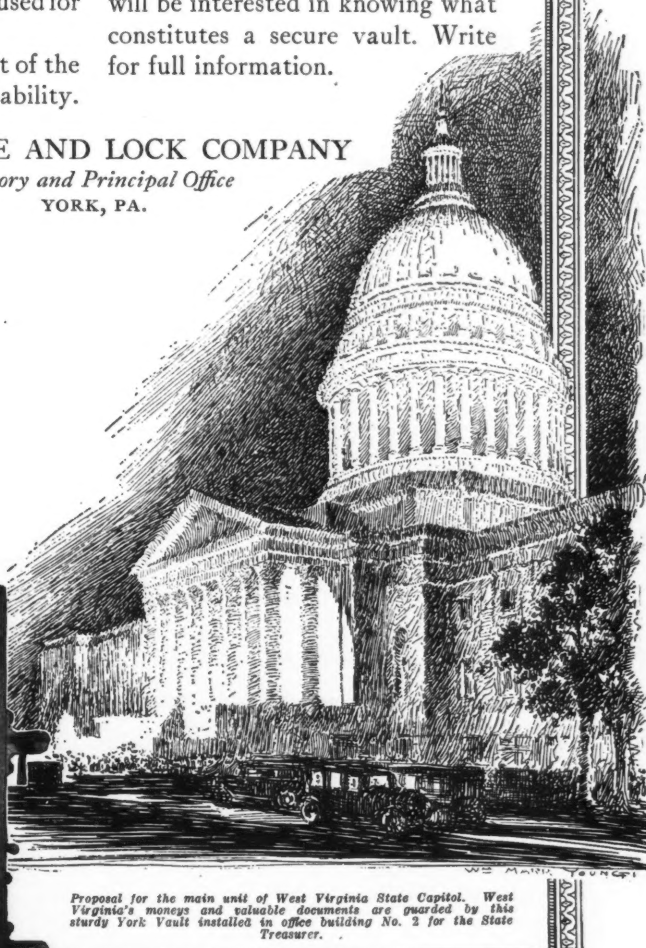
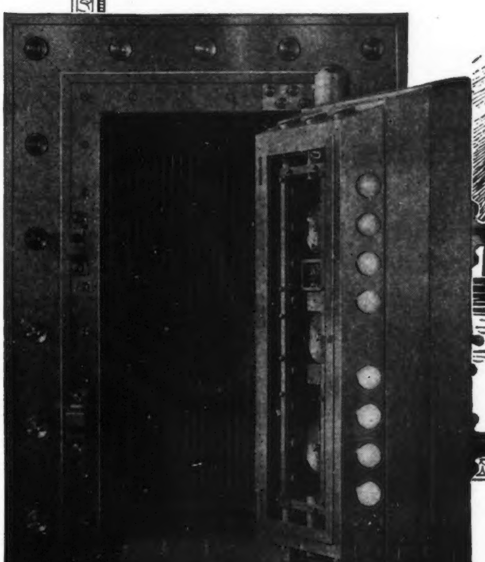
PHILADELPHIA
PITTSBURGH
ST. LOUIS
SAN FRANCISCO
SEATTLE
WASHINGTON
PARIS, FRANCE

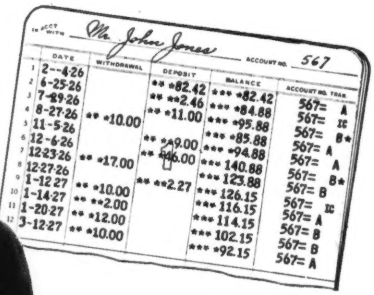




Proposal for the main unit of West Virginia State Capitol. West Virginia's moneys and valuable documents are guarded by this sturdy York Vault installed in office building No. 2 for the State Treasurer.

Cass Gilbert, Architect, New York

Old-style passbook with hand-written figures.



Passbook with entries printed by National Posting Machine.

When your depositor looks at his passbook

When a depositor looks at his passbook he gains something of a picture of a bank's method of operating. For a passbook is after all, the most important link between bank and depositor.

Picture in your own mind the impressions likely to be made by the two books shown here. Which would you like to have represent your bank?

One a tangled mass of hand-written figures, difficult to read, easy to change, giving little or no protection either to bank or depositor.

With the other, every entry is clearly and indelibly printed by machine. All three records printed at the same operation, once in passbook, once on the bank's ledger card and once on an audit strip.

Hand-written methods made the book on the left. National bank-posting machines made the one on the right. Which does your depositor see when he looks at his passbook?

National Bank-Posting Machines

The National Cash Register Company

Dayton, Ohio

The Condition of Business

Moderate Expansion Noted in Production and Trade, But Irregularity Persists. Agricultural Conditions Improve. Banking Situation Continues Strong Despite Gold Exports, and Easy Money Stimulates Stockmarket Speculation to Record Volume.

THE general business situation appears to have changed slightly for the better during the past month. An expansion has been looked for ever since last Fall, but so far there is evidence of only moderate improvement.

Exceptions are found in the steel and automobile industries, as has been discussed heretofore, also in building construction. These three lines are looking for a big year and will have it, according to reliable indications.

In most other industries, however, business is still somewhat quiet, somewhat below normal. A surplus of labor of most types is in accord with this tendency. Despite assurances that the unemployment situation is not so serious as has been reported, the man or woman out of a job today finds the new openings few and the applicants many.

Some of the business indices measuring production and trade have recently turned upward, that prepared by one of the leading statistical bureaus having risen during the past two months from 96 to 106, based on percentage of normal. This particular index is made up of numerous factors, including steel, automobiles and building, which three industries are given considerable weight, so that the composite figure may be carried upward by an improvement in these three lines alone. Another well-known index rose from 97 to 103.

That fact does not necessarily mean that the index is misleading, for with three such basic and important industries carrying on active operations, the lesser industries will tend to follow along and thus continue general prosperity.

A cross-section of the entire industrial picture impresses one with the unevenness of conditions at the moment, the same as in January, February, and March. The outlook is uncertain both as to the immediate and more distant future. Reports coming into the banks from their customers who are manufacturers, wholesalers, or retail merchants, as well as public statements given out through the press, generally agree, with the exceptions noted that business is only fair, and that no material broadening of activity has as yet developed.

Agricultural Conditions Improve

THAT the position of the American farmer continues to improve is indicated by every phase of agriculture and related lines. A genuine bull market in grains and moderate strength in cotton forecast an increase of many millions of dollars in probable farm income as compared with last year.

Wheat is selling above $1.85 per bushel, compared with $1.45 at this time in 1927; corn around $1.20, against 87 cents; rye at $1.30, against $1.10; oats at 70 cents, against 52 cents. While visible supplies of wheat are still large, milling and export shipments have absorbed more of the 1927 crops than had been looked for, and no burdensome carryover is expected. Winter wheat has been affected by drought in some sections which caused abandonment of considerable acreage, and excellent growing weather in the near future will be necessary to make an average crop. Strength in foreign markets suggests that prices may likely go higher.

Corn supplies have been practically cleaned out by the heavy export movement, the first in years. Further substantial exports are anticipated until the middle of May, and price sentiment is bullish, although there has been free selling of futures and no important advance is looked for.

Cotton prices are round 20 cents per pound as contrasted with 14½ cents a year ago. Estimates on the probable carryover at the end of the cotton year, July 31, 1928, are being revised downward, and authorities say a crop of fully 15,000,000 bales is needed. It will be recalled that cotton production was increased substantially each year following the 1921 slump, culminating in the record-breaking crop of 1926 amounting to 17,755,070 bales. The resulting price breakdown to nearly 10 cents caused a drastic curtailment in acreage, and the 1927 crop was exactly 28 per cent lower, totaling only 12,777,505 bales.

Spring planting of cotton is reported to be making satisfactory progress, with private estimates forecasting an acreage gain of 5 per cent. With a normal yield per acre, and without the losses from flood that occurred last year, the return to cotton growers may easily be $25,000,000 or more above last year.

Among industries closely related with farming, the indications are similarly favorable. Implement manufacturers have been running perhaps 10 per cent above a year ago in preparation for active spring sales. New models are being introduced, particularly in the lighter, more powerful tractors and the programs for modernizing American farm machinery should continue forward uninterrupted.

Fertilizer companies likewise are looking forward to a year of better profits than in 1926, when buying was subnormal and price-cutting affected profits adversely. Retail buying of fertilizer has been somewhat slow, but the regular list prices are being adhered to and heavy purchases on short notice from the cotton growing territory are likely.

Meat packers' operations during the first half of their fiscal year (ending Oct. 31) were quite satisfactory. The heavy slaughter of hogs and prevailing low prices have stimulated consumption of pork products, while the large inventories which the packers have accumulated may net them a profit if prices of ham, bacon, lard, etc., recover to normal levels this summer on decreased slaughterings. Cattle and sheep prices are holding firm at quotations well above a year ago.

Banking Situation Remains Strong

DURING the past month bank credit has continued to expand moderately. Combined loans and investments of the reporting member banks now stand approximately $1,500,000,000 above a year ago, but this would represent only a 7.5 per cent increase.

It is significant to observe, however, that only approximately 12 per cent of this expansion has taken place in commercial loans, while 44 per cent of the credit went into secured loans and an equal amount into investment holdings.

Strictly brokerage loans by New York banks have again risen to the neighborhood of the 3,835,020,000 record, while total collateral loans of New York Stock Exchange members amount to nearly $4,400,000,000. Such loans have expanded more than $1,000,000,000 as compared with one year ago.

Despite this credit expansion, borrowings from the Federal Reserve banks are only slightly above last year and seem quite moderate in relation to the huge resources represented.

In the same manner the Federal Reserve System has been able to stand a steady loss of gold reserves that have brought gold holdings to more than $250,000,000 under a year ago, yet maintain its ratio of total reserves to deposit and note liabilities combined at around 74 per cent, or only 5 points below last year.

Gold movements this year resulted in a net export balance of $13,766,000 in January, $11,090,000 in February, and $93,000,000 (preliminary figure) in March, making a total loss of $128,000,000 in the first three months. The March balance is the largest loss ever occurring in one month.

A continued moderate outflow during the next few months is looked for as the central banks in France, England and Germany, also South American countries, continue building up their gold reserves in connection with plans of currency stabilization and monetary reform.

Money rates are stable but firm. Commercial paper of the best names, four to six months, is selling in the New York

market at 4¼ per cent, while call loans rule at 4½ (5 per cent over the month-end) and time money at 4½-¾, all practically the same as a year ago, when the rediscount rate was 3½ instead of 4 per cent. Bankers' acceptances, however, at 3½-⅝ for prime 90-day bills are fractionally higher.

Nevertheless the trend of interest rates the world over is not upward, but downward. Increased attention should be given the problem of improving bank earnings through a reduction of interest paid on demand and time deposits.

With the present yield so low on commercial paper as well as high-grade bonds, banks are being driven more and more into purchasing the more speculative domestic and foreign issues. Many institutions have formed affiliated security companies for this purpose, and even to buy common stocks. This change from old-time commercial banking practice to a sort of "investment trust" activity is too recent to have fully demonstrated its safety. Should the banks eventually reach a position where a major portion of their resources are invested in the securities markets, they will then be subject to the effects of bear markets as well as bull markets. Banking funds invested in secured loans or investments other than United States government securities are not eligible for rediscount in the event of a period of money stringency.

Abundant Funds Encourage Record Speculation

A RESULT of the strong banking situation, combined with only moderate demands from business, has been to force funds into the securities markets. The past month has witnessed the greatest volume of trading on the New York Stock Exchange in our history.

In February a broad upward movement began which ran the volume of transactions from 2,000,000 shares daily to above 3,000,000 shares daily for the first time, then continued establishing new records and culminated in a total of 4,202,820 on March 26 and 4,790,270 shares on March 27.

The movement was led by interests behind General Motors Corporation stock, whose buying carried the shares up from $130 per share to $199. The enormous capitalization of this industrial giant, whose earnings of $235,000,000 last year exceeded any other corporation in the world by a wide margin, amounts to 17,400,000 common shares, exclusive of the preferred. A rise of 69 points, therefore, represents a market appreciation of $1,200,600,000. This is more profit than all the railroads in the United States make in a year.

A secondary leader was Radio Corporation of America, which, as a result of improving earnings last year, was run up from 85 to 195, partly at the expense of the short interest. This stock reported only $6.15 earned last year, pays no dividend, and has never paid one since the company was organized. Last year it sold as low as 41⅛. A number of other leaders appeared, including United States Steel Corporation and New York Central Railroad.

These issues have one after another been the object of spectacular advances until Wall Street has had the wildest markets ever witnessed, surpassing even the days of the war. The resources of these trading groups behind this movement may be appreciated by the growing size of individual transactions. It is not infrequent today to have a sale of 10,000 shares in a block, which, at, say, $190, would amount to $1,900,000!

Incidentally, the brokerage commission on such a single transaction would be $1,500 for the broker making the sale and another $1,500 for the broker making the purchase. On the 4,790,270 shares traded in on March 27, figured at an average of $15 per hundred shares, the commission for both sellers and buyers would amount to $1,437,081 gross profit on one day's business!

It is no wonder that the value of seats on the Exchange has risen to fabulous prices. A decade ago the memberships could be had for $50,000, while this year the prices gained from $290,000 to $375,000, and on one occasion jumped $25,000 over night.

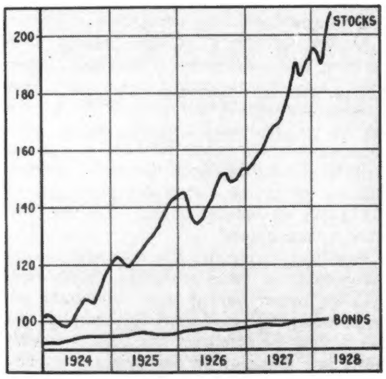
Present speculative fever is by no means confined to the New York Stock Exchange. Every exchange in the country has participated, particularly on the Pacific Coast. Even the New York Curb Market, only a few years ago doing business chiefly in "penny mining stocks" in the open air on Broad Street, has so broadened that 691 separate issues were traded in on March 27 —a record number.

Many business executives who are unable to make satisfactory profits in their own commercial ventures are turning to Wall Street in the expectation of making money more quickly and easily.

Not All Shares Have Advanced

THE increase in prices this year for the market as a whole is something over 10 per cent. Measured by the Standard Statistics Company long-term index of common stock prices, the average has risen from 188.6 the middle of February to 208 the first of April. This figure is computed from 228 stocks, including 197 industrials and 31 rails, and is weighted according to the number of shares of each issue outstanding. It is now 36 per cent above last year's low point and 110 per cent above the corresponding date in 1924.

When or where this speculative furore will end is anybody's guess. The entire list of stocks has by no means enjoyed an advance proportionate to a few of the leaders. Some observers say that a great deal of "distribution" is taking place under cover of the fireworks in a few issues. Whether or not this is true is a hard matter to determine, but there can be no doubt that the general public has been drawn into the market more actively than ever before.



Common stock prices have more than doubled in the past four years

New York bankers do not appear to be particularly pleased at the scope of the advance, despite the fact that they hold at all times large balances of interior banks on which they are paying interest and for which they should make a return. Call loans by New York banks for their own account have in fact been decreasing recently, but the funds loaned for the account of out-of-town banks and "others" more than make up the difference. Bankers have arbitrarily "marked down" the prices at which they will value certain shares for collateral purposes.

Likewise the Federal Reserve Bank authorities have expressed themselves as opposed to such active speculation, and only a short time ago followed their warning by increasing rediscount rates throughout the country, but the stock market's answer is to surge forward at a runaway pace.

We have referred earlier this year to the downward trend of industrial earnings generally, and a tabulation of some 709 reports now issued and representing all lines of industry show net profits last year 7.9 per cent below 1926 and only 1.2 per cent above 1925. If General Motors Corporation were not included, the 1927 total would be 10.5 per cent below 1926 and 4.1 per cent below 1925.

In view of this lower trend of earnings, some readjustment of share prices would seem inevitable, and reactions of minor or major extent in the market would not be surprising at the present time.

More Estimates on Unemployment

THE number of unemployed in the United States was 1,870,000 persons on Jan. 1, according to a report to the Senate by Secretary of Labor Davis in response to a resolution of Senator Wagner of New York.

"The present slump in employment, while not so extensive or grave as the estimates which have been generally circulated, is nevertheless serious," Mr. Davis said, using as a basis for his statement a computation by Ethelbert Stewart, Commissioner of Labor Statistics, submitted with the Secretary's report.

Mr. Davis predicted "prompt relief" through public works programs of the Federal, state and municipal governments.

Simultaneous with the submission of the Davis report, the American Federation of Labor said a survey of its own showed the average unemployment of members of the trade unions was 18 per cent in both January and February.

Senator Wagner asserted absolute confidence that at least 4,000,000 persons were out of work, repeating the statement that he had previously made in introducing the resolution that produced the Davis report. Other members of the Senate who participated in the discussion expressed the opin-

(*Continued on page 806*)

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Where the Danger Lies in Installment Buying

By OSWALD W. KNAUTH
Vice-President, R. H. Macy & Co., New York

Main Trouble Is We Know So Little About It. Conclusions Arrived at by Prof. Seligman Are Questioned. Coal Fields Case Not Typical. This New Credit Not a Separate and Self-Sustaining Entity and Therein Lies the Danger For the Future.

I THINK the main trouble with instalment buying today is that we know so little about it. Here is a new engine or rather here are a large series of new engines created—all running around separately without a roadbed and tracks and without any system of signals. We do not know how many engines there are—we do not know how powerful they are—and we do not know where they are going. We have become so accustomed, during the years since the war, to an increasing quantitative knowledge of many of our industrial facts, that this growth of instalment buying must of necessity upset our equilibrium. Every new device like this is—and by right should be—examined, tested, discussed and altered; just as any new device in any of our businesses, must be tested thoroughly before it is accepted as part of the general scheme.

Fortunately as far as the facts of instalment buying are concerned, we have had recently a monumental study made by Prof. E. R. A. Seligman and his associates. I can see no reason why any of us should go back of these facts. In so far as anything is known of instalment buying on a large scale, he has had the facilities and he has the ability to collect and present these facts, and he has done this work in a masterly fashion. But some of the conclusions which are commonly drawn from the facts which Professor Seligman presents, seem to me without any foundation. I would even go further and query whether Professor Seligman himself is justified in drawing some of the conclusions which he makes in view of his own statement of the facts. It seems to me to be perhaps worth while to dig into some of these facts, and re-examine what they really indicate.

Not the Basis of Prosperity

FIRST of all, Professor Seligman shows that consumer credit is not nearly as important as was generally supposed. He estimates that there is outstanding at one time only about $2,000,000,000 worth of instalment paper, and that the total purchases on instalments amount to only about $4,500,000,000 per year. Each of these figures is perhaps two thirds of what had normally been supposed to be the case, and each represents a small fraction of the total of sales and credits. How, then, can this small addition be the basis of our prosperity during the last few years? Is it not too much to impute all our prosperity, as has been done, to this new vehicle of distribution? It seems to be a clear case of "not proven" that we would not have had an era of prosperity, even though automobiles and many other articles had been bought for cash, or by straight bank loans of individuals. That instalment credit has increased since 1920 or 1921 is undoubted; and that we have had five or six years of great production and prosperity is undoubted. But that they are cause and effect is another matter. Indeed, Professor Seligman is careful to point out that there is no necessary relation, though it seems to be generally taken for granted.

In a recent speech where Professor Seligman reviewed his conclusions, he went so far as to hint that a new era of prosperity had been found and he drew the analogy that just as producer credit had revolutionized conditions a century ago, so now consumer credit was on the verge of doing the same thing, and leading us to a new step forward in prosperity. Is there anything to justify such a hope? I have carefully read his book and I have failed to find it. Certainly it does not lie in giving the consumer earlier possession of articles, for most instalments are drawn on a twelve-month basis, so that, at most, this earlier possession has been advanced by only one year. At the most, then, instead of there being some 21,000,000 automobiles in the country today, there would be 17,500,000. There is nothing revolutionary in that. In giving work to a larger number of persons, again, it can scarcely be found. For again the total appears too small to bring about a change of the first order.

As far as an increase in production goes, that is again unproven. There are arguments both ways, but no sure basis of fact. Certainly, that is a slender reed to rely on for the supporters of instalment credit. How many of the articles listed by Professor Seligman are agents of production? He has a long list, of which the main are automobiles and furniture. All others are small in comparison. Automobiles are certainly productive under certain circumstances—but not always, and I do not think furniture could be held so.

The Only New Features

WE have already an indeterminate amount of consumer credit in the way of charge accounts. While instalment credits are probably largely, if not wholly additive to the present charge accounts, nevertheless it does not seem as if they are anything really new. In fact, the only really new feature of instalment credit is the fact that the loan is paid back in small amounts rather than in a lump sum. We have always had this method in partial payment of mortgages on houses, and there is nothing in this to change the face of the industrial map.

The remark is often heard that normal savings are not interfered with—that in fact they are growing along with the increase in instalment purchases. The increase of deposits in savings banks is referred to as proof of this assertion. But Professor Seligman makes no such claim. His statements are "As a matter of fact, however, these figures are of slight importance"—and "All that can be said is that for the past decade instalment selling and general prosperity have increased together." As we all know, deposits in savings banks are only one of many forms of saving, and not necessarily an index of total saving.

What, then, is it all about? If indeed there is no more to it than shown thus far, we have all been unduly excited over what is in reality a ripple on the face of the ocean, and not a tidal wave. There is much truth in this, I suspect, and yet I think positively we can say several things with some assurance based on our present knowledge:

First—Instalment credit tends to make possible the easier buying of luxuries. In this connection, I would reverse the normal easy statement that the luxuries of yesterday are the necessities of today. I would rather put it "Beware that the luxuries of yesterday do not become the necessities of today," for therein lies danger. Professor Seligman illustrates this point a number of times in his chapter on the "Effects on the Consumer." His investigation shows that the main problem of instalment buying is due to the difficulties of repossession. The producer reckons his costs far more carefully than the normal consumer; his values are more capable of exact figuring, in that they are summed up in dollars and cents; whereas the values of the consumer are estimated in terms of family welfare, happiness and health. A business, moreover, is apt to be a more stable affair than a "job", however good.

Second—While the two billion of installment credit outstanding is only a

(*Continued on page* 814)

Profits in the Cotton Industry

By D. RICHARD YOUNG

Large Production of Raw Cotton and Resulting Lower Prices Have Brought a Resumption of Mill Activity Unequalled in a Decade. Substantial Earnings Are Now Being Reported in Both North and South, but New England Still Fails to Show Proper Enterprise.

MANY bankers do not appear to realize the remarkable recovery that is taking place in the cotton goods manufacturing industry in this country. For several years this line has been in a depressed state due to a falling off in demand for cotton cloth and a failure of the old-established mill operators to adapt themselves to the changed conditions. Large production of raw cotton in 1926, and the resulting lower prices, proved the signal for a resumption of mill activity such as has not been witnessed for a decade.

Substantial earnings now being reported by representative cotton mills, both northern and southern, make pleasing reading to bankers who have followed the affairs of this industry through the dark days since the war. Typical mills operated at a deficit in 1926 which was turned into a profit last year. Exceptional cases changed a small profit in 1926 to a larger profit in 1927, or a large deficit in the former year into a smaller one the latter year. This does not mean that earnings are all that they should be, for return on invested capital is still below what is considered normal in most other lines.

Herewith is a tabulation of the earnings for the last two years of all leading American cotton manufacturing companies which publish reports. Figures represent net profits available for dividends or to carry to surplus, i. e., after all expenses, interest charges, reserve for depreciation and provision for taxes have been deducted, except as otherwise indicated. "Otherwise" occurs entirely too frequently in this line, due to old-fashioned accounting methods. Most fiscal years end Dec. 31.

Cotton Mill Earnings

Net Profits—000s Omitted

	1926	1927
Amoskeag Mfg. Co.[1]	D 3,565	66
Boott Mills	*139	*178
Brighton Mills	15	..
Butler Mills	D 320	111
Cabot Mfg. Co.	137	251
California Cotton Mills Co.	D 298	653
Charlton Mills	*809	*723
Consolidated Textile Corp.	D 624	206
Cohn-Hall-Marx Co.[2]	*14	467
Dartmouth Mfg. Corp.	63	406
Consolidated Textile Corp.	D 624	..
Enterprise Mfg. Co.	..	104
Everett Mills[3]	D 560	D 581
Edwards Mfg. Co.	D 219	138
Georgia Kincaid Mills[4]	*670	*670
Goodyear Textile Mills Co.	238	202
Graniteville Mfg. Co.	D 73	..
Grinnell Mfg. Corp[5]	D 154	163
Harmony Mills	D 107	208
Henrietta Mills[5]	D 233	111
Hill Manufacturing Co.	D 162	17
B. B. & R. Knight Corp.[6]	D 205	130
Lancaster Mills	D 933	D 129
Lawton Mills Corporation[7]	D 111	199
Lockwood Mills	..	106
Martel Mills, Inc.	D 130	..
Merrimack Mfg. Co.	365	346
Mt. Vernon-Woodberry Mills, Inc.	488	609
Nashawena Mills	D 16	414
Nashua Mfg. Co.[8]	D 178	1,209
National Fabric & Finish Co.[5]	D 363	121
Naumkeag Steam Cotton Co.[7]	*424	1,599
Neild Mfg. Corp.	..	205
New England Southern Mills	D 1,033	D 101
Newmarket Manufacturing Co.	D 85	210
Nonquitt Spinning Co.	D 192	17
Pacific Mills	D 928	1,293
Pepperell Manufacturing Co.[9]	476	980
Pilgrim Mills	*170	180
Quisset Mills	..	126
Riverside & Dan River Cotton Mills	1,200	1.600
Sibley Mfg. Co.	..	122
Soule Mills	..	176
Thomaston Cotton Mills[2]	763	..
Union-Buffalo Mills Co.[9]	D 39	589
United Piece Dye Works	2,760	2.171
U. S. Finishing Co.	646	..
Victor Monaghan Co.[9]	437	504
Wamsutta Mills[5]	D 194	406
West Point Mfg. Co.[8]	859	1.445

[1]Year ended May 31; [2]Years ended July 31; [3]Years ended March 31; [4]Four year average; [5]Years ended Sept. 30; [6]1926 includes 4½ months; [7]Years ended Nov. 30; [8]Years ended Oct. 31; [9]Years ended June 30; D—Deficit; *—Before certain charges.

The Rise of Profits

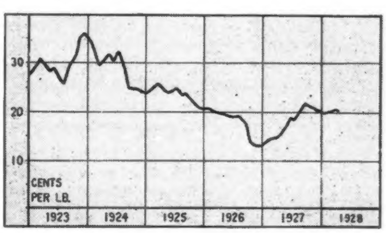
OF the fifty-one leading northern and southern mills which publish reports, comparable earnings figures for 1926 and 1927 are now available for thirty-seven companies.

In 1926 fifteen companies operated at a profit and made $9,598,000, while twenty-two operated at a loss and had deficits of $10,519,000, leaving a net deficit of $921,000.

In 1927 thirty-four of these same mills operated at a profit aggregating $18,854,000, and only three at a loss with deficits of $811,000, leaving a net profit of $18,043,000.

Behind this somewhat sensational turnabout last year in one of America's largest and oldest industries are two major influences which any economist will recognize as determining profits in cotton manufacturing or any other line. One was low-priced raw material; the other, appreciation of inventory.

Considering raw material cost, cotton sold in pre-war days around 12 cents per pound, the average for the fifteen-year period of



Decline in raw cotton prices aids recovery in mill prices

1900-1914 inclusive being 11.30 cents, based on New York Cotton Exchange quotations for spot middling uplands.

In the inflation during the early part of 1920 the price went above 42 cents, from which it crashed to below 12 cents in 1921. However, a prompt recovery made the yearly average 21.21 cents in 1922, 29.44 cents in 1923, 28.67 cents in 1924, and 23.45 cents in 1925—all practically double pre-war.

Naturally such attractive prices encouraged larger planting, and the 1921 production of 7,977,778 bales was by favorable yields increased to 9,729,306 bales in 1922, 10,170,694 in 1923, 13,639,399 in 1924, 16,122,516 in 1925, and the record-breaking 17,755,070 bales in 1926.

Coming in the face of lower demand for cotton goods on the part of the consuming public, this huge production had the inevitable effect of breaking prices. Incidentally it had the effect also of raising the old cry of "conspiracy" against the Federal Reserve System that in retrospect can be adjudged at its true worth, which was nothing.

Price Cut in Half

A PRICE of 25 cents per pound in the spring of 1925 was cut exactly in half by the end of 1926. Average monthly cost in the latter year was brought down to 17.53 cents.

Nevertheless, 1926 was not a profitable year for the cotton mills, generally speaking, since the advantage of lower costs was offset by losses occasioned by writing down inventory values.

The low price, however, did enable the cotton manufacturers to again offer their wares in competition with silk, wool and rayon. Between these four major textiles there is always a balance, and any material change in one textile promptly causes its consumption to increase or decrease in relation to the others.

A genuine recovery in cotton milling followed, and the manufacturers were on a sound operating basis for the first time in nearly a decade. This position established, and having confidence in the future of their industry, the mill owners purchased heavily of raw cotton at the prevailing lower price level. For so doing they gained the name of "robbers" from many growers, cooperative associations, cheap politicians, etc., but had they not acted in this manner, it is difficult to see anything that would have prevented the price going still lower under the pressure of such enormous overproduction. Moreover, a price low enough to bring about a recovery of the growers' principal cus-

(*Continued on page* 827)

Savings Banks Need New Vision

Shackled by Restrictions and Traditions, Have Stood Still While Everything Else is Changed. Add the Investment Trust to Its Service. A Savings Bank Investment Research Bureau Proposed to Find Out What Is Investment Safety and How to Serve Better.

SPEAKING before the Eastern Regional Savings Conference, recently held in New York under the auspices of the Savings Bank Division of the American Bankers Association, A. Vere Shaw of Boston demonstrated the need for a new vision in savings banking. The world, he reminded his audience, has changed radically since the beginning of savings banks, yet these institutions remain practically unchanged, to their own disadvantage and the disadvantage of the people they serve, and he suggested ways for improvement. Mr. Shaw said in part:

"The savings bank was an established institution before this modern era began. It had brought the coins out from the chimney, the mattress and from under the floor. It had acted as a clearing-house for the small capitalist, giving him an opportunity to lend at a profit and get his capital back on demand. Its original conception was most fortunate. But the original plan, except in unimportant detail, is unchanged today, and it fails to meet the modern economic needs of the sons and grandsons of those it originally served so well. A change in the wind necessitates a change in the sails if the ship is to proceed on the same course. If the savings bank still wishes to serve its depositors, it must achieve a new idea of safety.

Too Much Safety Dangerous

"SAFETY is a concept which can be defined only in view of the objective to be accomplished. But the most surprising thing about safety is that too much of it is dangerous. In the application of safety measures, there comes a point of diminished return beyond which further effort decreases safety.

"Your depositor still pursues the same objective he always has, though in a different manner perhaps, and a little more intensely. He seeks happiness. To assist your depositor in accomplishing his objective, channels and agencies of investment are now available that were not thought of when the savings bank was first organized. Then the investment field was practically limited to mortgages and real estate. The corporate form was hardly known. Bonds, stocks and stock exchanges were developments to come. There were very few places where a citizen could raise cash in emergency. Money was scarce; the banking system inadequate. But today, with all our financial machinery, the depositor does not need to rely on the savings bank in case of emergency. He may even own real estate through shares in a company, sell it, and get his money in one day. He may not get all he paid, but then he may get more than he paid. If he does not care to sell, he may borrow on his share as collateral. Under modern conditions your depositor can with equal safety and greater profit place his capital farther afield than he once could.

Depositors' Ideas Changing

"PROFIT is a word on which the savings banker looks askance. But it has an appeal to depositors far greater than 'Save for your old age.' As a matter of fact, profit is a very decided factor in appraising safety. Except for compound interest, what is the difference between 50 per cent annually for five years and 5 per cent annually for fifty years? Some sound investments are of the fast-growing variety. The purchase of the stock of one of the largest and best known New York banks five years ago and its sale today would have netted the purchaser over 50 per cent per year. For safety this bank will rank with any savings bank. Given two funds of equal size, a difference in return of 1½ per cent (6½ per cent —5 per cent), that difference compounded semi-annually at 5 per cent will be sufficient in thirty years to replace one of the funds entirely. Properly understood and handled, profit is an acceptable substitute for safety and an antidote for loss.

"Profit in excess of that offered by the savings bank is becoming essential. Depositors are abandoning the idea that a dollar is a dollar. They are being told that capital should grow. They see it grow. You have been very careful to return to a depositor dollar for dollar every one of the hundred he deposited twenty years ago. But the dollars you returned him have not bought as much as the ones he deposited. In dividends you have paid him hardly enough to offset his actual loss in principal. Your liability, of course, was a dollar liability. But he cannot eat dollars. His liability is a bread-and-butter, a radio and Ford liability. Instead of studying his personal desires, you are giving your full attention to the number of dollars he has deposited. Meanwhile, someone is telling him about investment trusts.

"Under this new plan, according to the promise, the investor's capital grows, and if he needs money quickly he can readily sell his holding or borrow on it. The investment trust is founded upon the same principle as the savings bank, but operated without investment restrictions, other than self-imposed, and usually as a money-making enterprise for the managers, neither of which considerations *per se* are to its discredit. It offers the investor greater profit than the savings bank, and it can be operated so as to give him equal safety. It is greatly to be regretted that the savings banks, which really are restricted investment trusts, have not entered this unrestricted field and given it the benefit of their careful, honest management. I would suggest that they take steps immediately to add the investment trust to their present service. Unless some such addition is undertaken, the savings banks are likely to experience a considerable diminution in their growth when, as and if the stock market enters a really favorable buying range, and also when, as and if American investment trusts demonstrate their ability to pass through a business depression.

How to Get the Facts

"THE problem of learning how savings bank depositors wish to be served, what investment safety is, and how it is to be secured, lies before you. Do not wait for your depositors or your legislatures to solve it. They look to you. Yours is the responsibility. If you will agree among yourselves as to principles, marshal your facts and present them logically, your legislatures will be glad to accept your findings. But you must have the facts. Where and how will you get them? Modern business uses the tool that will solve your problem.

"During the year 1924 the Equitable Life Assurance Company sold certain Chicago, Milwaukee & St. Paul bonds for $1,765,229. By Jan. 1, 1926, the market value of these bonds had declined to $1,379,575, a capital loss of $385,654, or 22 per cent of the investment was saved. During the same year, 1924, the same company purchased other bonds of the same railroad for $2,581,605. On Jan. 1, 1926, these bonds had advanced in market value to $2,710,578, an increase of 5 per cent. This was the result of careful investment research. What were the savings banks doing about Chicago, Milwaukee & St. Paul bonds in 1924?

"The General Motors Corporation last year spent $1,000,000 per month on experimenting and research. The steel industry, paper, lumber, chemical and many others have their research bureaus, which are spending millions of dollars on the problems common to their constituent companies. Research has saved millions for industry. It can save and earn millions for savings bank depositors.

"This is the place, now is the time, you are the men to act. The suggestion is that you organize the Savings Bank Investment Research Bureau to undertake the systematic and constant study of investment conditions and principles; that you endow this bureau with a fund of $2,000,000; and that it have the responsibility of investing its own endowment. The Investment Research Bureau should train investigators and field men; find out what investment safety today is; find out how to serve the depositor;

(*Continued on page* 807)

Dallas Reserve Bank Investigation

By H. E. SARGENT

There Is a Disposition in Washington to Let the Matter Drop. Legislators View It Largely as a "Family Affair" That Never Should Have Been Taken to Congress. Anyhow Neither House Nor Senate Has Power. Problem Up to Local Bankers.

INVESTIGATION of the Federal Reserve Bank of Dallas and its governor, Lynn P. Talley, is becoming a farce. Congress is turning a cool ear toward the demands from west Texas for an inquiry into the administration of affairs in the Eleventh Federal Reserve District.

Realization of its lack of authority over an individual Federal Reserve bank reached the House in time to prevent that body, so to speak, from starting something it could not finish. The Senate was less fortunate, and finds itself with a formal investigation ordered into a matter with which it has no concern and about which it can do nothing even should it so desire. As a result, the Senate Banking and Currency Committee must go through the motions of carrying out the directions of the Mayfield resolution and at the same time save its face so far as possible from being placed in a ridiculous position.

Without a Record Vote

ON Feb. 24 the Senate, without a record vote, adopted the resolution offered by Senator Mayfield, Democrat, of Texas, calling for an investigation by a subcommittee of the Banking and Currency Committee of the administration of the Dallas Federal Reserve Bank, with particular reference to the policies of the governor of that institution. The resolution was the culmination of a campaign by small banks in west Texas against Governor Talley, and against what they claimed was the failure of the Dallas Reserve Bank to afford them the full services and facilities to which they were entitled as members of the Federal Reserve System.

More than a month after the adoption of the Mayfield resolution, the Senate investigation has proceeded but little beyond the selection of a subcommittee of the Banking and Currency Committee, with Senator Carter Glass, Democrat, of Virginia, as its chairman. The subcommittee so far has held no hearings. Its activity has been confined to a study of the testimony taken at an investigation of Governor Talley, carried on by the directors of the Federal Reserve Bank of Dallas. At the outset the subcommittee has been impressed by the fact that it was after this investigation that the directors of the Dallas Reserve Bank reelected Mr. Talley as governor.

The more or less tentative program of the subcommittee is to let the plan of the Dallas Reserve Bank investigation rest upon the outcome of study of the record of the investigation made by the directors of that institution. If this evidence brings to light facts which the subcommittee believes have not been given full attention, the subcommittee intends to look into them. Also, there is disposition to grant anyone who wishes it an opportunity to be heard, although the question of a date for hearings is very indefinite.

If surface indications mean anything, the subcommittee is going to get out of the difficult position in which it has been placed as lightly as possible. Senator Glass, one of the framers of the Federal Reserve Act, is fully acquainted with the authority of Congress over an individual Federal Reserve bank which is the property of its stockholders, the member banks of the district which it serves. The United States government holds no shred of proprietary interest in the Federal Reserve Bank of Dallas or in any other Federal Reserve bank.

Senator Glass' subcommittee has been directed by the Senate to do something which the subcommittee is perfectly well aware it has no right to do. If Congress can investigate an individual Federal Reserve bank, it can investigate an individual national bank, or even a state bank, for that matter. Experienced members of the Senate Finance Committee are well aware of the dangerous precedent that would be established should a serious effort be made to conduct a Congressional probe into the administration of a Federal Reserve bank. They understand the uncertainties which would creep into the banking business if that field of activity were to come within the shadow of Congressional investigations.

And Then—Nothing

THEY are also well aware that even if a full-fledged investigation was made into the Dallas Federal Reserve Bank, with all the trappings of public hearings and star witnesses, and even if all sorts of things were revealed which cried for remedy, the Senate could do nothing about it. Without authority to investigate, the Senate can go through the motions of an inquiry. But short of revision of the Federal Reserve Act, altering the whole theory of the Federal Reserve System as now constituted, Congress cannot presume to act in the place of the stockholders of a Federal Reserve bank.

Plenty of pressure has been exerted in the Dallas Federal Reserve Bank affair. And up to a certain point the ideas of those seeking the removal of Governor Talley seemed to prevail. But a reaction has set in, and there is now noticeable both in the Senate and in the House a distinct disinclination to allow the Federal Reserve System to become a plaything. Moreover, the tactics employed in putting the Mayfield resolution through the Senate were not calculated to fill the Banking and Currency Committee with enthusiasm for the investigation.

When the resolution was offered and acted upon there were no members of the Banking and Currency Committee on the floor of the Senate. In other words, the resolution was presented to the Senate for action at a time when that body was without the advice, through debate, of any of its members formally designated as its advisors on all matters pertaining to banks and banking. Certainly, had some of the older members of the Banking and Currency Committee been on the floor of the Senate, the Mayfield resolution would never have passed without a record vote. It is hardly too much to say that it would not have passed at all. It would have been pointed out to the Senate that it was undertaking to investigate a private institution and the Senate would have been warned in advance, of what it will have to be told if there is ever a report on the Dallas investigation, that it has no authority in the premises.

There is also among some members of Congress a certain resentment against West Texas for bringing their domestic troubles to Washington. In the midst of the wide range of criticism which has been directed at the Federal Reserve Bank of Dallas, the essence of the matter seems to boil down to the conduct of that institution by Governor Talley who has been described by Representative Williams, Democrat, of Texas, as being dictatorial.

Members of Congress not directly concerned with Texas and who have studied the situation have come to the conclusion that if conditions there need readjustment the matter should be left in the hands of the bankers of the district. The feeling is that if there is a real problem the local bankers are best fitted to provide a solution.

Reserve City Officers

These officers were elected at the annual meeting of the Association of Reserve City Bankers, held in March in New Orleans: President, William F. Augustine, National Shawmut Bank of Boston; vice-president, Lawrence W. Eley, Los Angeles-First Trust & Savings Bank; Directors, W. L. Lamb, Commerce Guardian Trust & Savings Bank, Toledo; R. R. Hunter, Equitable Trust Co., New York; C. A. Barr, Continental Bank & Trust Co., Chicago; V. J. Alexander, American National Bank, Nashville. Joseph J. Schroeder was re-appointed secretary, and Charles H. Ayers, People's Wayne County Bank, was appointed treasurer.

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Land Bank Appraisal Problems

(*Continued from page* 770)

gaged in last fall by the independents and the cooperatives in California has a temporary effect, at least, upon land values; and in the east there has been a rather gradual evolution in farming. The introduction of machinery, the improvements in marketing, better roads and social conditions have made the so-called hill farms less desirable and there has been a rather steady exodus from the hill tops to the valleys. And now farms which abut the main paved highways bring a premium, despite the fact that they may not be any better farms from the standpoint of agricultural returns.

Problems of Appraisal

MANY of the appraisal problems of the Federal Land Banks do not present any different phases than those encountered by the life insurance companies, private individuals, or other agencies making long term loans. Any institution which lends for a long period, of course, has an appraisal problem which is quite different from the short term loan, where the banker or other lending agency determines every three to five years whether he wishes to lend for a longer period. As against this, however, there is the amortization feature of the Federal Land Bank loan in which the borrower is constantly paying something on the principal, and as time passes the Bank has less and less "invested" in the loan.

The orthodox points which any loan agency must take into consideration in making farm loans include location, physical property of the farm, earning capacity, sale value and the man himself.

As I have already indicated, improved roads are a great factor in the value of farms today. The location of the farms as to markets, such as shipping points, creameries, storage houses to which the farmer ordinarily would deliver his crops, have a bearing on the value of the farm property. Also some towns and cities offer much better market facilities than others, both from the wholesale and retail standpoint. Then, too, there are the schools, churches, social organizations and general community spirit to be considered. Possibly this is not as important as it used to be since the automobile has annihilated distance, yet it is still a matter to which farmers themselves should and do give a good deal of attention. Frequently they do not always give as much thought to it before they purchase as they wished they had after they have purchased.

It is obvious, of course, that the physical properties of the farm have an important bearing upon the returns which are possible from it. The quality of the soil, topography of the farm, size of the fields, location of the buildings, natural and artificial drainage, water supply, and the general layout of the farm must be studied carefully.

Taxes Watched Closely

THE Federal Land Banks have made some loans in areas where the people have voted for public improvements such as irrigation or drainage or hard roads after

the dates upon which the Federal Land Bank made its loans. The taxes on these improvements are a prior lien and, in some instances, the assessments on the improvements plus the interest on the loan have proved a greater burden than the farmers could carry. The Land Banks have watched very carefully such developments. Then, too, since taxes in general are liens ahead of first mortgages, it is necessary for the Federal Land Banks to keep very close tab on the payment of taxes by their borrowers.

The very life of any concern loaning money on farm land depends upon the appraisements. An early realization of this fact has saved the Federal Land Banks from serious loss. The tenth annual report of the Federal Farm Loan Board shows that on 9330 sales of property for a total of $62,991,326, the Federal Land Banks had loaned $27,446,441. This is 44 per cent of the sales. This is a special significance because of the fact that many of the loans on these properties were made at a time when land was at top prices.

The utmost care is exercised in selecting Federal appraisers. Applicants must be able to pass a severe practical examination. Some of the banks require an apprenticeship of from six months to a year for each appraiser, before his judgment on a loan is accepted by the bank. A number of reviewing appraisers selected by the Federal Farm Loan Board constantly check and review the work of the other appraisers. They also assist in the selection and training of new appraisers, and in the weeding out of undesirable loan territory. By this system of checking each loan has the benefit of two separate appraisals by trained men who work independently. Special care is taken in the checking of the appraisals of large loans.

Some Foreclosures Made

I DO not mean to imply that the Federal Land Banks have operated these ten years during what is probably the most hectic time that agriculture in America has ever experienced, without the necessity of foreclosing upon farms. They have acquired approximately $15,500,000 worth of farms in the ten years out of the $1,158,000,000 worth of loans outstanding, which means that the farms acquired represent a small fraction of more than one per cent of the loans outstanding. According to the last report, about 40 per cent of the land thus acquired has been resold at satisfactory prices, in spite of the inactivity in the sale of land during the last few years.

Helping the Staff

The purpose of the AMERICAN BANKERS ASSOCIATION JOURNAL is to furnish information useful to all those engaged in banking. Make the contents of the JOURNAL available to everyone in the bank. The Group Subscription plan provides an economic way to give a personal copy to ambitious members of the staff, and many banks are thus providing the means of helping members of their staffs to get the benefit of the experiences and the opinions of prominent bankers on matters of vital interest to all banks.

Banks have ordered ten, twenty, thirty, forty, fifty and even more JOURNALS to be sent to individuals for one year.

Plan Aid for State Banks

A GROUP of Nebraska bankers, farmers and business men met in Lincoln March 23 and organized the Citizens' Bank Guaranty Union, which organization will sponsor an initiated amendment to the Nebraska constitution for the purpose of placing the state's credit behind the receivers' certificates issued by the state bank guaranty fund in financing the payments to depositors of failed state banks.

This proposed amendment would empower the legislature to guarantee up to approximately $14,000,000 worth of these receivers' certificates.

At present there are some 780 solvent state banks in Nebraska. About 215 banks have failed in the last seven years. Through the handling of these failed banks, the guaranty fund has paid depositors of failed banks approximately $40,000,000, of which amount $15,000,000 has been paid from money obtained through direct assessments made upon solvent banks.

Due to the large number of failures, the guaranty fund has fallen behind approximately $10,000,000. This amount represents its obligations over and above the assets of failed banks now on hand.

It is the theory of the Citizens' Bank Guaranty Union that, with the state's credit behind the receivers' certificates, there will be a ready market for them, and that the interest rate, which is now 7 per cent, will be reduced to about 4 per cent.

Should such legislation be enacted, it is asserted it will be possible to wipe out the deficit by 1932. With that in mind, the amendment will include a provision which will call for its automatic repeal in that year.

It is not proposed that any state tax shall be levied for the support of the guaranty fund. With the state's guaranty behind the certificates, it is believed that bankers and investors will purchase enough of them to enable the guaranty fund to meet its obligations without difficulty.

It is frankly admitted that under present conditions state banks are being so heavily assessed that the stronger ones are seeking relief through nationalization.

If sufficient signers can be obtained for the initiative petitions, the proposed amendment will be put to a vote of the people next November.

The Condition of Business

(Continued from page 794)

ion that the actual number was between 4,000,000 and 5,000,000.

New Financing Continues Heavy

UNDER the favorable influence of easy money conditions, the volume of new financing continues heavy. In fact, the speculative boom on the stock market has made a part of the investing public so enthusiastic that issues of preferred and common stocks are in keen demand.

High-grade bonds are selling at top prices, representative indices standing around 93 and representing a gain of one point in the past month and two points over April, 1927.

Largest piece of financing during the month was $100,000,000 consolidated mortgage 4½s of the St. Louis-San Francisco Railway Company, which is the largest railroad issue for several years. These bonds, to mature in 1978, were offered at 97 to yield 4.65 per cent.

The City of New York sold $52,000,000 of its corporate stock bearing 4 per cent and due in 1931 at a price of 101, to yield 3.70 per cent.

Following is a table of all bond offerings of $5,000,000 or over during the month. In contrast with the high coupons commonly seen a few years ago, it will be observed that practically no domestic issue was offered on a basis to yield as much as 6 per cent. Two-thirds of the domestic issues do not even yield as much as 5 per cent.

Major Financing in March

Issue	Amount	Rate	Due	Price	Yield
St. Louis-San Francisco Ry. Co. cons. mtge. A	$100,000,000	4½	1978	97	4.65
City of New York corp. stock	52,000,000	4	1931	101	3.70
United Drug Co.	40,000,000	5	1953	..	..
Republic of Colombia, ext. s. f.	35,000,000	6	1961	95	6.35
Kingdom of Norway, s. f. ext	30,000,000	5	1963	97½	5.15
Inland Steel Co. 1st s. f. A	30,000,000	4½	1978	95	4.76
Metropolitan Edison Co. 1st D	23,000,000	4½	1968	99½	4.52
State of New York	22,500,000	3½-4	1930-78	..	3.50-.65
Wabash Railway Co. ref. & gen. C	17,867,000	4½	1978	95½	4.74
City of Detroit, Mich	17,272,000	3¾-4½	1929-58	..	3.70-4.05
Gelsenkirchen Mining Corp. (Germany) sec. notes	15,000,000	6	1934	97	6.60
State of Arkansas highway	13,000,000	4¼	1938-58	..	4.05-.10
Interstate Public Service Co. 1st & ref. F	12,554,000	4½	1958	94½	4.85
D. & R. G. Western RR. Co. ref. & imp. mtge. B	12,000,000	5	1978	96	5.23
City of Warsaw, Poland, s. f. ext	10,000,000	7	1958	89	7.95
Shaffer Oil & Refining Co. conv. notes	10,000,000	6	1933	98⅓	6.35
State & Washington Bldg., Chicago 1st s. f. A	10,000,000	5	1948	98	5.16
New York Dock Co. notes	10,000,000	5	1929-38	..	4.50-5.40
State of Minas Geraes, Brazil, sec. s. f. ext	8,500,000	6½	1958	97½	6.69
San Antonio Public Service Co. 1st & ref. B	7,500,000	5	1958	97½	5.16
Oslo Gas & Elec. Works (Norway) ext. s. f	6,000,000	5	1963	95¼	5.30
Iowa Power & Light Co. 1st A	6,000,000	4½	1958	95¼	4.80
Bank of Silesian Landowners Assn. 1st coll. s. f	6,000,000	6	1947	92½	6.70
Utah Power & Light Co. 1st & gen	5,500,000	4½	1944	96¾	4.79
Scranton-Spring Brook Water Ser. Co. notes	5,000,000	4½	1930-34	97¼-100	4.50-5.05
Miehle Printing Press & Mfg. Co. s. f. deb. A	5,000,000	5½	1948	101	5.42
Vicksburg Bridge & Terminal Co. 1st s. f.	5.000,000	6	1958	99½	6.00
State of North Carolina	5,000,000	4	1940-44	..	3.90
Distributors Discount Corp. col. tr. notes	5,000,000	5¼	1931	99¼	5.50

Savings Banks Need New Vision

(*Continued from page* 800)

make its findings available to every member of your division; establish standards and ratings for different securities and types of securities; and train your officers and trustees in investment practice.

"One sad commentary on the savings bank is its failure to prepare its depositors for financial independence. You are interested in dollars rather than in men and women. You do not explain to your depositor how you invest his money. When he has deposited up to your legal limit, and you boot him out into the cold world, telling him almost nothing, he immediately becomes the prey of fly-by-night security promoters. The investment trust is ideal for the capitalist whom you refuse to serve, but who as yet has not enough capital to invest soundly by itself. There is a well-known organization, called "The Legal Aid Society," which fills a real need by furnishing sound legal counsel to the poor at a nominal cost. Your research bureau should organize an "Investment Aid Society" to serve your depositors. Let it be a function of the bureau to train at least one man in each bank as an "investment aid" representative. Charge the depositor a reasonable fee for this service. If you charge him nothing, he believes the service costs nothing and cannot be worth much. The advertising of services "free" to your depositors is a bit of unsound financial education.

Investment Laws Should Read

"YOUR research bureau can advise what principles of sound investment, if any, should be placed upon the statute books. In recognition of the new rate at which civilization is changing, the last paragraph of any investment law should read: 'This law expires by limitation ten years from the date it is passed.' The Canadian bank law contains such a provision. It would be interesting to know how much in actual money the savings bank investment law of New York has cost depositors, and to what extent it has reduced safety. The profits made by large investors who have purchased prospective legals prior to their becoming legal would offset many losses if saved for depositors. Why should the state, at the expense of the poor, select safe investments for trustees and others, and so limit the field that an artificially high price and an artificially reduced safety is the result? A law which specifically names or describes legals is wrong in principle. If bankers, savings bankers, investment bankers know how to invest money, as they claim they do, why is any such law as that of New York needed? Is it because of interlocking interests and the possibility of a director acting both as a buyer for the savings bank and as a seller to it? A safer investment law would permit wide discretion, perhaps stating types and proportions of securities that were not legal rather than those that were. Such a law would require published reports in detail. It would instruct the bank commissioner to advise a bank to dispose of any security he considered unsound, and to publish the fact if the bank did not act.

The law would ask directors to disclose to the bank commissioner any personal interest they might have in any transaction for the bank. But investing is an art—some claim a science—and no science or art has ever been found on a statute book. It would be the function of your research bureau to develop this art safely and profitably, and to develop competent artists.

"The Poor Are With Us

"ONCE upon a time the savings bank was the poor man's bank. Today its depositors probably represent a fair cross-section of society. Some millionaires are depositors. Are the poor no longer with us? It is estimated that in 1926, the most prosperous year in our history, 93,000,000 out of our 120,000,000 people had an income of less than $500 each. The poor are with us, and the savings bank still has its mission.

"Shackled by restrictions and traditions, this institution has well performed a most helpful service. But shackles do not promote accomplishment, and they must be removed. The savings bank today needs a new vision, a new appreciation of the service to be rendered. It needs a new definition of thrift. It needs to learn that progress and motion exist only where there are energy and experiment; that energy and experiment do not exist apart from a risk of loss.

"The one-talent man in the parable said he was afraid—scared. He thought he might lose his master's talent or that it might be stolen. So he went and hid it in the earth. And his master took it away from him. Trustees of the savings bank depositor, do not be afraid of losses. Do not be afraid of mistakes. Better to be dangerously alive than safely dead. The savings bank needs courage, and a program!"

The New York Savings Conference

DISCUSSION and interest in savings and all the factors pertaining thereto reached high-water mark at the Regional Savings Conference, held on March 22 and 23, Commodore Hotel, New York, under the auspices of the Savings Bank Division, American Bankers Association.

There was scarcely a moment which lacked interest from the time when John J. Pulleyn, president, Emigrant Industrial Savings Bank of New York, and chairman of the local committee, called the meeting to order on Thursday morning until it was adjourned by George L. Woodward, president, Savings Bank Division, American Bankers Association, who presided at the various sessions of the conference on Friday evening.

Two former presidents of the Savings Bank Division, Samuel H. Beach, of Rome, N. Y., and Victor A. Lersner, of New York, presided at two sessions of the conference. Honorable Harry P. Gifford, president, Savings Banks Association of Massachusetts, presided at the Thursday luncheon. At this luncheon William H. Kniffin, vice-president, Bank of Rockville Center, discussed "Some Social Aspects of Money." Mr. Kniffin has long been a student, not only of banking but of money in its wider phases, and brought to his audience a wealth of knowledge and philosophy.

The toastmaster at the banquet was George V. McLaughlin, president, Brooklyn Trust Company, and formerly superintendent of banks and more recently police commissioner of New York City. The principal address was by Hon. Henry F. Ashurst, Senator from Arizona. Walter J. Reeves, vice-president, Irving Savings Bank, sang. Graham McNamee, of the National Broadcasting Company, New York, entertainingly described radio's developments. Senator Ashurst gave a dramatic picture of the growth of the United States, pointing out as he did so that, notwithstanding all the advancement in material progress, America is great and will remain great only if she is good.

At the luncheon on Friday, Lewis Gawtry, president, Savings Banks Association of the State of New York, presided. H. V. Kaltenborn, associate editor, *Brooklyn Daily Eagle,* gave "A Bird's-Eye View of Our Relations in the Occident and Orient." He had recently returned from a trip in the East, and the information thus gained supplemented his former wide knowledge of conditions pertaining to the United States in its relations with foreign countries.

The program included practically every subject of outstanding importance to savings banking. Following the address of the President, Mr. Woodward, which outlined in admirable fashion the activities of the American Bankers Association as developed by the various divisions, sections, commissions, and committees, with particular reference to the Savings Bank Division, came a masterly presentation of the trend of interest rates by Dr. David Friday. That paper is reproduced elsewhere in these columns with some others on the program deemed to be of widespread interest.

The high plane upon which the conference was launched by the opening addresses was maintained throughout.

Those bankers interested in the "Legals" received more detailed information through the address of Philip A. Benson, chairman of Committee on Investments of the Savings Bank Association of the State of New York than could have been secured by reading the voluminous printed material accompanying the discussions of the bills in the New York Legislature.

The address of Paul W. Albright, general secretary, Savings Banks Association of the State of New York and executive secretary of the local committee, was eagerly followed by reason of the fact that Mr. Albright was the moving factor in working out the plan by which the mutual savings banks have a radio program every Friday evening. It marks the first sustained effort to advertise banks by use of the radio.

The value of each paper was greatly enhanced by the developing of the pertinent facts by a discussion leader who had familiarized himself with the content of the speaker's paper before the conference opened.

The Southern Trust Conference

THERE will be four sessions of the Southern Trust Conference to be held in Chattanooga, Tenn., April 20 and 21.

The first session will be opened Friday morning, April 20, at Hotel Patten, by Walter S. McLucas, of Kansas City, President of the Trust Company Division of the American Bankers Association, and the presiding officer for that session will be W. C. Bowman, vice-president of the First National Bank of Montgomery, Alabama. The program for that session will include the following: "What the Bank Executive Owes to His Trust Department," Robert F. Maddox, chairman of board Atlanta and Lowry National Bank, Atlanta; "The Development of Trust Departments in the National Banking System," Eugene R. Black, Governor Federal Reserve Bank, Atlanta; "Handling Securities in Trust Estates," A. F. Young, vice-president Guardian Trust Company, Cleveland, Ohio; "How the American Institute of Banking Trains Trust Men," Harold J. Stonier, Educational Director American Institute of Banking. New York City.

At the second session, Friday afternoon, William A. Dixon, vice-president Whitney-Central Trust and Savings Bank, New Orleans, will preside and the program is: "The Field for the Life Insurance Trust in the South," John A. Reynolds, vice-president Union Trust Company, Detroit; "The Need for Standard Fees for Trust Services, John C. Mechem, vice-president First Trust and Savings Bank, Chicago; "How to Advertise Trust Services," Fred W. Ellsworth, vice-president Hibernia Bank and Trust Company, New Orleans; "Vanishing Fortunes,"—a motion picture illustrating the advantages of the life insurance trust.

Friday evening a banquet at the Read House, Chattanooga, will be given by the Chattanooga Clearinghouse Association to the delegates at the conference. Walter S. McLucas will preside. Thomas R. Preston, President American Bankers Association and president Hamilton Trust and Savings Bank, Chattanooga, will speak and the principal address will be "The Importance of the Trust Department in Our Financial System," by James H. Perkins, president The Farmers' Loan and Trust Company, New York City.

During the third session, Saturday morning, April 21, E. Y. Chapin, president American Trust and Banking Company, Chattanooga, will preside. The program is as follows: "Pitfalls in the Trust Business," H. L. Standeven, vice-president Exchange Trust Company, Tulsa, Okla.; "Has the Community Trust a Place in the Southern States?" Ralph Hayes, director New York Community Trust; "Making the South 'Will-Conscious'" Gilbert T. Stephenson, vice-president Wachovia Bank and Trust Company, Raleigh, N. C.

As this is the first of these regional conferences to be held in the South, it is expected that many bankers will take advantage of the opportunity it offers to obtain new viewpoints on the many subjects included in the program.

The Clearinghouse Conference

A CONFERENCE sponsored by the Clearinghouse Section of the American Bankers Association was held in Kansas City, Missouri, March 19, 1928, for the purpose of considering ways for further strengthening the banking structure of the country through increased cooperation among bankers.

There were present representatives from North Dakota, South Dakota, Minnesota, Wisconsin, Nebraska, Iowa, Illinois, Colorado, Kansas, Missouri, Oklahoma, Arkansas, Texas, Mississippi and Louisiana, including presidents and secretaries of state bankers associations, state bank commissioners, chief national bank examiners and numerous other bankers who have been especially interested in the question of group cooperation for the common good.

The major topic of discussion was the problem of mapping out and recommending definite plans for the organization and operation of regional clearinghouse associations, consisting of approximately seventy-five banks in each association, which are designed to bring to country banks the advantages enjoyed by city clearinghouse association members.

Special emphasis was placed on the fact that the hundreds of clearinghouse associations now in operation in the principal towns and cities of the country have proved themselves to be the chief line of defense against bad banking practices, and, moreover, they have proved themselves to be the chief factor in bringing about reforms in banking regulations, improvements in banking methods, and the promotion of sound banking practices. Two such regional clearinghouse associations are already in operation—one at Fremont, Nebraska, called the First Nebraska Bankers Credit Clearinghouse Association, embracing the banks of five counties, the other called the Northern Minnesota Clearinghouse Association, centering at Bemidji, Minnesota, embracing the banks of seven counties.

As a result of the Kansas City Conference, bankers, especially in the Mississippi Valley states, are actively taking steps looking toward the general installation of similar associations.

"IF I might attempt to summarize the things we have done today" said Craig B. Hazlewood, First Vice-President of the American Bankers Association at the conclusion of the conference, "I might say first that unquestionably President Thomas R. Preston is right when he says we have a tremendous problem to conjure with. It is also true that whatever we do will be an evolution from what has been done. The members of the American Bankers' Association are not satisfied with conditions as they are. The banking failures record of the last eight years must not be repeated. The conditions with respect to examination are improving but the movement should be in sympathy with better examinations. We must make progress. We cannot stand still. We must evolve some way of bettering conditions.

"It is my idea that the banking fraternity itself can cooperate with examining boards toward a better condition of affairs. If that is not true—if no cooperation is desired—I should be much surprised. State examining boards would welcome cooperation from the bankers. We are concerned more from a perfectly selfish standpoint than any other, with the success of our neighbor. When there is a bank failure in a town other banks in the town suffer. The bankers of this country are interested in this matter of banking supervision.

"Mr. C. A. Chapman, of Rochester, Minn., put the thing pretty well when he outlined the methods. First, the clearinghouse examination such as conducted in Chicago. The reason why the Chicago Clearinghouse Association supervision and examination represents a different condition than the guarantee deposit is that the Chicago Clearinghouse Association knows the risks. It knows what the risks may be. No privately owned insurance company would guarantee all the banks in Missouri sight unseen. They would want to know the risks. They would want to pick out the banks they would guarantee and those they would not. The Chicago Association is fairly well able to take up that challenge.

"The plan of having the banking departments establish regional organization, I should say, is an impractical plan for a time at least until public sentiment is developed. It would be a problem to make all banks believe they should give permission to a supervisory board to have their affairs revealed. We must revert to the voluntary plan for the time being.

"THE plan Mr. Dan V. Stephens, of Fremont, has organized in Nebraska, provides for examination by the State Banking Department. The banks are in charge of the State Banking Department. There is a supervisory board to consult with the examiners. The responsibility for the conduct of those banks is in the State Banking Department and the responsibility of a failure in that community is not one bit less on that Banking Department after the organization than before. The supervisory board as constituted there is for the purpose of assistance, advice and attempting to improve conditions in the communities, improving the education of the bankers who are conducting banks in the community. It is in no sense a guarantee. It merely says we will help the State Banking Department to produce as good banking conditions as possible. So far as responsibility is concerned, it does not take one iota of responsibility away from the Banking Department. A committee of bankers in a community would be helpful in educating the bankers of the community. They could give the benefit of the best knowledge to all in the community. That is a step forward. A group acting in that way can be of benefit in helping the banks, and the Banking Department is in favor of this.

"The Chicago Clearinghouse idea could not be put out in the country today where there are weak sister banks. The only thing where there are weak sister banks is the alternative suggested—that the banks are under the supervision of the Banking Department and the supervisory board is ready to aid the State Banking Department.

"The examiner is going into the bank which needs his help more often than into those which do not. Bank failures do not occur overnight. They are the result of an unfavorable drift. There is no excuse, barring war and acts of God, for a bank failure. If conditions are halted before they get too bad there is no reason for a bank failure. Get hold of the situation before it is too late. Correct the processes which lead to disaster. Hold the whip over the Banking Department so that it will do right. The Department has got to behave.

"THERE is the reason why your regional examiner should be stationed in the community. There is where the same advantage you have in the clearinghouse idea can be adapted to the country. It is the advantage of continuous contact. It seems to me this can be applied to a very useful purpose—the idea of a qualitative analysis rather than a simple check of the books—a view of the administration of the bank rather than balancing the books. Management is the whole thing. It is the reason for the success or failure of 80 per cent of all business. It is not economic conditions alone which cause bank failures. I believe if these banking departments will permit us to cooperate with them—if they will permit us to evolve a plan which is a bit hazy now—if they would take assistance from the best of the banking fraternity, it is going to assist in the education of bankers themselves in better banking."

Taxation of U. S. Investments in Great Britain

A subject of importance to Americans having business interests abroad is the taxation to which they will be subject in the countries where their investments are located. The Department of Commerce directed Mitchell B. Carroll, while recently in Europe, to make an exhaustive study of the taxation systems of Great Britain and the more important Continental countries.

The results of this study are being embodied in a series of monographs. The survey of the British system of taxation is now available for distribution. The most important subjects discussed are: Legislative provisions and jurisprudence concerning what constitutes doing business with and within Great Britain; taxes payable when an establishment is set up in that country; liability of an individual who is sent to Great Britain to represent a business organization; taxes on stocks and bonds.

The bulletin is issued as Trade Promotion Series No. 60. Copies may be obtained from any district or cooperative office of the Bureau, or from the Superintendent of Documents, Government Printing Office, Washington.

New Books

BEYOND THE COUNTER. By Mary B. Reeves, of The Philadelphia Saving Fund Society. 85 pages. $1.90.

An interesting discussion of extension of the bank's activities. It treats briefly and effectively on School and Workers' Savings Plans, on the banker's contact with merchants, and contains opinions on planned advertising from six leading American bankers.

Making Safe Deposits Safe

(*Continued from page* 790)

of service until the day previous. On arriving home, he tried to unlock his door and found he had the keys of someone else. Then he realized the attendant had given him the wrong bunch of keys. It was too late to return to the vault as it was past closing time. He worried all night about his valuables being locked up in the wrong place. The next morning, he was at the bank as soon as it opened. There he found another customer as anxious as he was to get in—the man whose keys he had and who had his.

Another Picture

AT this point, the other man spoke up and said, "Come with me when I visit my box some time and see how careful they are. My signature on file reads John L. Smith and if I forget when I am in a hurry and sign, Jno. Smith and leave out the L., they will not open the locked gate until I correct my signature. They check my signature each time, to see if name and number agree, although the attendant who has been there for years greets me by name and calls off my number before I give him the slip. When I enter the vault, the attendant sets up my lock and I unlock my safe and remove the container myself. I relock the door when I go to a room and when I return unlock the safe again and slide my box in place, removing my keys, knowing thereby that everything is perfectly safe and giving myself the greatest feeling of confidence in placing my valuables in such a vault."

During the rush of a busy day, a customer of our bank left his box open and was out on the street before we had discovered what he had done. We could not close the door as he had removed his keys, locking it open. The box was removed at once in the presence of two employees and a customer who happened to be close by and placed in another safe. Then we called up our negligent customer, informed him what had occurred and asked him to come down at once. This was in the morning and he came around late in the afternoon. Was he excited? Not a bit. He had, as we all know, negotiable securities valued at well over $100,000 in his box. We requested him to inventory the contents so as to satisfy himself that everything was intact. "I haven't time," he said, "and, furthermore, let me tell you I've always admired the careful manner in which you operate this vault. As far as checking over the contents is concerned, I feel it would be time wasted and I certainly appreciate the manner in which you handled the situation."

As a matter of record, we had him sign a form stating that the contents of the box were intact and he thereby released the bank of all liability on this occasion.

A box was rented by us to a prominent brokerage concern. Instructions were given that eight persons were to have access and then only when at least two were present. Four principals were appointed and four seconds. Any two principals together could open it or one principal and one second but not two seconds. In the course of time we

became very well acquainted with these eight persons as they visited the box every day. Instructions had been given to the vault attendants that all signatures must be checked before a safe was opened and no exceptions. This is a hard rule for most attendants to follow, especially where they can call the customer by name and number. During the peak of the business rush, two seconds signed a ticket, presented it and knowing them so well, the attendant pressed the button, opening the gate and allowing them to enter the vault. While they were passing through the gate, he checked their signatures and saw at once they had no right to open the box together. They were politely informed that according to instructions from their company, it would be necessary to bring a principal before the box could be opened. They apologized for their error and left. The next day we received a letter removing these two signatures as they were no longer in the employ of that firm.

Imaginary Losses

IMAGINARY losses are one of our greatest problems. I have seen the personnel of a vault so disturbed by a customer declaring that bonds had disappeared from his box that the custodians really believed that the loss had occurred and began looking at each other suspiciously.

Returning from lunch the other day, I was confronted by a man who shouted that someone had stolen a $1,000 bond from his box. I asked him to explain his loss.

"I put three 2nd Liberty Loan bonds of $1,000 denominations in this box three days ago," he said, "and today find one of them missing." "Where did you purchase it?" he was asked. "In your bond department which I can verify as I have the bill of sale." "Did you go elsewhere after buying these bonds." "No. I came directly down here and put them in the box." "Did you have any money in the box?" "Yes, I had about $100 in currency." "Was any of that missing?" "Not a dollar." "That seems strange, Mr. Brown, because if someone had entered your box, it seems that the currency would be more readily taken than the bond, as all bonds bear a number and there would be a possibility of tracing the theft if he tried to dispose of it. Furthermore, why take only one bond when the thief could have removed all of your bonds? You had only two keys made for your lock, and even if you lost them it would be impossible for anyone else to get into it."

"How about your master key?" Mr. Brown inquired. "We do not have a master key; the only key we have is a guard key which prevents you from opening your box alone. Our key will not open any box in the vault. Now you never put that bond in the box or it is possible you lost it before you reached the box with it. Let us go up to the bond department and check the number of this bond."

Before we left the vault, the manager of the bond department arrived as my assistant had called him by phone. "How do you do, Mr. Brown?" "Is this the way you take care of your bond?" "Why! How did you get that," Mr. Brown exclaimed. "Well, if it handn't been for an honest customer, you would perhaps have never seen it again.

It was picked up on the bank floor and returned to us." He was very profuse in his apologies and since then has been one of our best advertisers.

The safe deposit can be instrumental in bringing new business to other departments of the bank on account of the personal and intimate acquaintances which it is possible to form with your customers. Customers feel free to discuss their personal affairs with those connected to this department after they become acquainted. This gives us the privilege of suggesting the use of our trust department, bond department, or foreign exchange. We never direct or send them to these departments, we always conduct them personally and introduce them to those in charge of that department as we know we can accomplish more that way.

Plan now to attend the American Bankers Association Convention in Philadelphia, Oct. 1-4—the most important business convention of the year.

Where Danger Lies

(*Continued from page* 796)

small fraction of the total bank credit outstanding in the country, it is, however, an item that of necessity finds its way back into the business system. The finance companies must and do rediscount their paper or make loans with the banks and in so far this new credit volume is a part of the whole and connected with it, rather than a separate and self sustaining entity. It is just here that the danger lies. Perhaps not today, but certainly tomorrow. It has taken a century and many panics to bring the producer credit structure to such a stage that many of its menaces are removed. Each of these menaces, as a matter of fact, was removed only after expensive experience which brought about reforms. Even though consumer credit when properly confined to a sound business basis, may be a benefit, is it not true that those who are back of it owe to the rest of the community the creation of a system whereby the benefits are retained and the dangers minimized? And if they do not do it, should not the banks which to a large degree finally extend these credits, make it their business to regulate at first hand, the nature and terms of sound credit risks? Julian Goldman has proposed a general conference to take up and attempt to solve this very question and it seems to me such a conference should be had forthwith. Why is not the American Bankers Association a proper body to inaugurate this conference?

Third—Is the almost necessarily detrimental effect on the individual who allows himself to get caught in payments beyond his ability. Pleasant as it is to have the possession of goods for which one cannot pay, is it not nevertheless true that most people who could safely avail themselves of purchasing on the instalment plan, do not need to do so—whereas those who do are generally the ones who should not mortgage themselves under any circumstances? Of course, there are exceptions. But there are few things so disintegrating to character as living beyond one's income and drifting slowly into a worse and worse position.

Coal Case Not Typical

THE example cited of the storm which the instalment system weathered in the coal fields need not be taken as typical. That was a limited occurrence, and there was enough outside credit to enable the finance companies to declare a virtual moratorium in that district and still survive. I cannot see that we can argue with safety from this experience that a general depression, with widespread unemployment, could be gone through without a serious catastrophe. After all, the credits are extended on a situation of today; and if that changes, who is to foot the bill? Either an extension of credit, or repossession are the alternatives. Repossessions mean the flooding of the market with second hand articles; extensions of credit mean a similar demand made on the banks, which they may or may not be in a position to grant.

And this leads lastly to a consideration of importance to the merchant, especially the retail merchant. In so far as articles are sold on instalment credit, from a business

point of view, whatever the legal aspect may be, they are still the property of the seller. They are part of the unsold goods pressing on the market. Now, we have in many lines very good estimates of the quantities of goods on hand—either in the possession of the manufacturer, the wholesaler or the retailer, and we utilize these estimates to determine our buying policies. But here we have a new and unknown stock on hand—in the houses of consumers but owned by retailers. The invisible element is greatly increased. How much? We do not know. How thoroughly is it sold? Will it come back on the market? A new element of uncertainty has been introduced. A very practical question today is whether stocks are really as low as they seem to be, or whether we have not far more on hand unsold than we believe—only scattered among thousands of individuals, who are out of the market because they have already bought and must still pay. May it not be that a part of the reason for the recession of buying concerning which we have heard so much complaint during the last few months, is due to the fact that purchases made in 1927 are being paid for in 1928 and that some part of the buying power for this year has already been used up? Of course, it may be that the greater production of 1927 was equalled by the greater purchasing power, but as stated above, there are no facts to prove this either way and I have never been able to follow the reasoning of those who claim it to be the case. Perhaps we should have another study made to clear up this point.

I come then to the conclusion that the recent prosperity of this country has not been due to the growth of instalment buying; it has been accompanied by this growth. Even at the risk of being called an "obstructionist to progress", I query whether as a system it is not more bad than good. The analogy to the position of the producer credit a century ago, seems to me, far fetched. The query of whether these credits can be maintained through a period of unemployment seems still open to question. The problem of the worthy individual, temporarily hard up and deserving relief is not affected by his ability to purchase certain items with a small down payment. My own experience is that we are better off when we put off, if only for a year, the purchasing of most goods until we can pay for them.

Wholesale Prices Up

THE price index of the National Bank of Commerce shows an advance of nine-tenths of 1 per cent in the month ending March 15. Since last summer, says the bank's publication, the *Commerce Monthly*, the course of most price indices represents a compromise between recovery in a few agricultural markets and weakness for the principal metals. The characteristics of this period were again noticeable in the movement of prices last month, when the bank's index ran at a level somewhat below the point at which it stood in March, 1927. Of the total of twenty-three quotations from major markets used in the bank's compilation last month, thirteen turned upward while seven declined. Three were unchanged.

Unite in Old-Age Campaign

By HENRY BRUERE

First Vice-President, Bowery Savings Bank, New York

INDIVIDUAL life is subject to hazards, and one of these is not avoidable, and that is old age. Happily among the leaders of some industries there prevails a policy of sharing with the rank and file the extraordinary returns which the industry enjoys. General Motors is definitely committed to the policy of assisting everyone of its 150,000 employees, who have the resolution to cooperate with it, to become financially secure by the time their working lives are finished by way of saving to secure the company's assistance. What this company is doing is also being done in different forms and to varying degrees by numerous other industrial organizations in America. We must think today of a working class population, not struggling out of adversity, but one that is on the high road to economic freedom.

It is against this new background that the opportunity of the savings agencies must be examined. What savings institutions may do is governed by what business can do. There are more than 4,000,000 depositors in savings banks in New York State, yet the average amount to the credit of each account is but $844.70. These figures show that men and women have the impulse to protect themselves economically, but that they have not as yet succeeded in achieving the measure of protection that obviously they need by present-day American standards of living. The question is, what is the measure of those standards and what can the savings banks do to help the great American public satisfy that need.

Let us assume that every employed person between twenty and twenty-four years of age sets out on a program of saving a sufficient sum to retire on an annuity of $100 a month at the age of sixty-five. There are now 6,700,000 of such persons in the United States. Of these 3,700,000 will arrive at age of sixty-five, according to the life tables. For them to accumulate each the sufficient capital sum required at the time of retirement would involve an annual saving of $485,000,000. If all of the persons gainfully employed in this country over twenty-one years of age who will live to the age of sixty-five started to save for this goal at the age of twenty-one, the saving would be about $3,000,000,000 a year. This sum is exactly twice as much as was added to savings deposits in 1926-27. In addition to protection for old age, savings would be available to tide over living emergencies.

I realize that such a program cannot be easily carried out. Yet it is within the realm of possibilities, and until savings institutions accomplish it they may not rest content. It can be done only by the will of the individual cooperating with institutions dedicated to serving the common man.

I conceive of the savings banks as such institutions.. They have to their credit a magnificent achievement. That we in America wish to save is shown by the fact that savings since 1912 have increased faster than population and faster than the increase in national wealth and national income.

I propose that all savings institutions join in a sustained campaign of popular education in the desirability of old-age-independence saving. By every means in their power let savings banks impress upon the public, young and old, the golden opportunity now present in this age for the first time for the conquest of poverty, and especially that most poignant form of poverty, dependence in old age.

May not the savings banks set out collectively to become the means of educating our communities in the economics of personal financial management, on the relation of sustained business activity to general individual prosperity? Above all else we need to make it clear that the element of greatest importance in keeping times good is the conservation of the individual's power to make reasonable purchases.

It does not take great courage to forecast even at this moment of a slight pause in the upward swing of prosperity that America is headed for many years of good times. Not to have it so with our increased credit facilities, our improved control over production and distribution would be distressing evidence of incompetence. We are launched on a policy of high wages and a liberal sharing of the fruits of prosperity. As never before in history savings banks have an opportunity to be useful, for never before have so many people had something to save nor has there ever before been so much to save.

What to Look for in Utilities

(*Continued from page* 786)

that the rapid reduction of the national debt will make available a considerable amount of money for investment in these public utility bonds without in any way affecting the percent of the total which is invested in real estate mortgages.

It is also to be observed that the investments of savings banks in railroad bonds have shown a tendency to decline in a number of states. Without any doubt the difference in the yield which may be reasonably expected on real estate mortgages, as compared with either railroad or public utility bonds, will always make the field of real estate mortgage the primary outlet for savings banks funds.

A number of studies have been made showing the relative yield in these different fields. The most recent figures indicate that the yield on legal railroads in the present market is between 4 per cent and 4½ per cent, on the public utility bond of the grade which would presumably be eligible in any carefully drawn mortgage law, from 4½ per cent to 5 per cent, while the yield on high grade real estate mortgages ranges from 5 per cent to 6 per cent.

This in itself will always result in a large investment in the high yielding, but less liquid real estate mortgages.

In Making New Laws

AMONG the many factors to be taken into account in formulating a law covering the qualifications to be met in order that public utility bonds be admitted to the legal list, are the following:

(1) Only bonds secured by mortgage on the physical property of operating companies. This eliminates from consideration the securities of the holding companies over which the regulating powers have little or no control.

(2) The relation between the value of the property and the amount of the mortgage should be conservative. In my judgment not over 60 per cent in bonds.

(3) The use of open end mortgages in this field is not so firmly established that probably it must be accepted but the relation of future bonds issued to the value of the property acquired should be conservative, certainly not as high as 75 per cent as is sometimes found in these debentures.

The relation between earnings and interest charges should be carefully defined. No statement covering this point can be satisfactory unless it defines earnings. There is no uniformity in the accounting practice of the utilities and in the absence of such uniformity the banks should carefully state their requirements. To illustrate this point: The statement that the fixed charges shall have been earned at least twice over has no meaning unless it is accompanied by specific requirements covering maintenance, depreciation, and replacements. The tendency at the present time for the utilities to sell stock to their customers tends very definitely to improve their financial structure from the standpoint of their bond holders. This in itself should, as the years pass, give the bonds better standing.

The size of the community should be such as to insure stability and industrial diversity. The size of the company should be such as to give the bonds a relatively wide market. Franchises should either be indeterminate or extend well beyond the maturity of the bonds. The mere payment of dividends on the stocks has proved a poor test and if used should be carefully defined. The payment of dividends from funds which should have been retained in the business has embarrassed a number of corporations which have done this for no reason other than to keep the bonds eligible under such a legal provision.

One cannot avoid the temptation to urge the adoption of a conservative policy at the beginning with the full knowledge that amending the law to meet the needs of increased knowledge and experience is certain to be both expensive and slow, and one cannot escape the conclusion that the inclusion of these bonds in the investments of our savings banks has certain very decided advantages which tend to outweigh any hazards or disadvantages which have been advanced.

Helping Nations

(*Continued from page* 782)

tended that country to solidify her debt, balance her budget and to effect needed currency reform. The loan was at a rate of 7 per cent and dated to mature in October, 1947. An issue of $47,000,000 of this loan was floated in the United States, which issue was purchased at 92. The remainder of the loan was allotted to various countries of Europe.

In addition to the stabilization loan to the Polish government, an international credit was extended the Polish Central Bank by fourteen other banks of issue. Under the terms of these arrangements the Federal Reserve Bank of New York, with the participation of the other Federal Reserve banks, agreed, if desired, to purchase from the Bank Polski up to $5,250,000 of prime commercial bills.

On Dec. 22, 1927, the Italian government reestablished Italian currency on a gold basis, the lire being valued at approximately 19 to the dollar. In accordance with the practice followed in the case of England, Belgium and Poland, the Bank of Italy arranged for a $50,000,000 credit from a group of private banks headed by J. P. Morgan & Co., and for a $75,000,000 credit with a group of central banks. The Federal Reserve Bank of New York, in association with other Federal Reserve banks, agreed to buy from the Bank of Italy, if desired, up to $15,000,000 of prime commercial bills of the kinds and maturities made eligible for purchase by the Federal Reserve Act.

The Franc to Come Next

THE story of the rehabilitation of the French franc is yet to be written. Some of it may be surmised by the events that have gone before. France chooses to keep her plans secret until after the May elections. Yet it is no betrayal to recall that credits similar to those extended England, Belgium, Poland, and Italy have been made for French account in New York. Some $200,000,000 of the gold in the United States is said to be earmarked for foreign account. Some of this is carried to the credit of France. Out of the gold earmarked for French account, $10,000,000 was shipped during December last, $7,500,000 shipped in January, another $7,500,000 shipped during February, and $11,900,000 shipped early in March.

It was only upon the instance of the last named shipment that the Federal Reserve Bank of New York formally acknowledged that it had been holding gold for French account or that any credit had been made in favor of France. But what New York did was done by other central banks. France "pawned" some 500,000,000 gold francs in London during the war. This has been held against a day of need. It is reported that out of this some $25,000,000 of gold was shipped from London to Paris during the first two months of 1928.

The importance of these instances is the illumination they throw upon the form of cooperative assistance that is being rendered by the nations of the world, one to another, in recovering economic independence and in reverting to a gold standard. The quicker this movement is established, it is obvious, the more stable investment conditions become. And it renders assured those foreign securities which have been and are being floated privately in this market.

Proposed Investigation

(*Continued from page* 785)

remedy for the defects he claims to exist. Senator Norris, however, in his frank charges of the existence of a "power trust" calls for government ownership. Senator Walsh says, "I am not prepared to offer any suggestions as to what ought to be done by the Congress, or by anyone, in view of the conditions scarcely to be controverted." He doubts the ability of the states, however, to regulate adequately the rates at which power shall be sold that is transmitted interstate (less than 10 per cent of the total), and frankly holds that most important is the proper regulation of the sale of securities by utility companies. "Not being public utilities," he says, "the securities issued by them are in most states not subject to control by the local regulatory authorities. But being nation-wide, it may be said, in their activities, Congress may very properly inquire into their organization and their operations with a view to determining whether it may, as well as whether it should, attempt any regulation of the business they conduct, having in mind the interests of the consumer on the one hand and the investor on the other."

Out of the welter of the discussion arose the resolution of the Senate in 1925 instructing the Federal Trade Commission to investigate the alleged control of power companies by the General Electric Company. The first part of that report was filed with the Senate in February, 1927, and the second part in January, 1928. The investigation proved that no "trust" exists, that local monopolies through the grant of franchises do operate, but these organizations are monopolies for self-evident reasons. Eleven per cent of the existing power is the largest amount controlled by any one company or group. Super-power connections exist, but such connections, while stretching across

states, embrace companies which are distinct in their ownership and their management. They merely buy power one from the other, just as railroads interchange freight cars.

Matthew S. Sloan, president of the Brooklyn Edison Company, Brooklyn, N. Y., in a recent speech declared that the average price of electric power in the country is today 15 per cent less than it was in 1913. During that period there has been a tremendous advance in the relative value of the dollar, which would make the relative decline in the cost of electricity much more.

But not only has it been shown that a power trust does not exist in fact, and that relative power costs have not been advanced, but it has not been shown that the present organizations for the regulation of utility companies have been inadequate. Public service commissions for the regulation of rates to consumers exist in all except twelve states. The agencies for the regulation of the business seem to be functioning.

Profits from Scientific Advances

It is not to be denied that the chances of profit in utility companies are great. But these profits must come from the greater scientific advancement of the business. We have witnessed the development of the 130,000-volt underground cable, the use of trans-Atlantic telephone, world-wide application of beam-radio stations, and now comes television. The use of electricity for heating has grown rapidly. The non-ferrous metal industries have adopted the electric furnace for melting and treating; the automobile industry has adopted electric furnaces for steel treating and for japanning. Electricity is used in such work as bread baking, glass making, ceramic baking. The field for further development in the home and in illumination apparently has no limit. The next year and still the next promise to usher into use new inventions making necessary the consumption of more current.

The National Industrial Conference Board reports that the amount of electrical power equipment in the manufacturing industry in the United States has nearly trebled within a decade. Machinery manufacturing plants are practically 100 per cent electrified; the rubber industry is more than 94 per cent electrically equipped, and similar equipment is today considered a necessity by nearly all industries.

Engineering experience and scientific research are likewise finding new uses for gas, and there is every prospect for enlarging the market. To illustrate: it has been said that only 6 per cent of the 25,000,000 families in the United States have as yet installed gas water heaters, and it is reasonable to assume that this percentage will increase from year to year. Gas is adaptable also to many industrial operations, including large-scale baking, coffee roasting, aluminum refining, metal cutting and special heating in the ceramic industries. It is also profitably used for vulcanizing tires, pasteurizing milk and drying lumber. In the field of large-scale users of gas for industrial purposes, the present-day record of 20,000 separate and distinct uses is being increased by intensive programs of research. These studies and programs are sponsored by gas associations and often by private companies in the interest of gas development.

According to a trade authority, gas companies are obtaining on an average of $45 per annum per family served, though for the most part gas in the home is used for cooking only. As the years go on, it is believed that the average income to gas companies from homes will be multiplied by three per family served.

The public ownership issue is a comparatively minor one. Of more consequence is the desire on the part of certain members of Congress to enforce an inquiry into mergers and the concentration of control. However, mergers and consolidations are not peculiar to the public utility field, but rather general among industries. A certain amount of merging is considered advantageous, as in the case of the railroads, for which Congress is now considering a law to encourage combinations. On the other hand, governmental regulation may be wise or it may be harmful, and if harmful it will as promptly be felt by the consumers as by the holding companies.

"A definite answer to complaints regarding profits," says the *Digest*, issued by the Central Trust Company, Chicago, "appears in the records of corporate earnings for the last fourteen months, during which time more companies have paid more dividends than have ever before been distributed in this country."

How New York Modernized Legal List

BANKING legislation seldom has been awarded the place in the legislative program held by the four bills broadening the field of legal investments for saving banks, which were passed by the New York State Legislature at the session just ended.

"Of the 500 or so bills which have come before me thus far," Governor Smith said as he signed the measures, "I consider these the most important."

Senator John Knight and Speaker Joseph A. McGinnies of the Assembly, the Majority Leaders of the Legislature, in recounting the achievements of the session listed the banking measures among the first.

The ranking given to the savings bank program is especially interesting because most of the bills had been fought for four years and at the beginning of the campaign for their passage the average legislator would not even consider them. Denounced in many quarters as late as last year as "threatening the savings of widows and children," the bills were finally passed with scarcely a murmur of opposition.

This overturn of legislative sentiment was not the product of a single session and certainly not of any one debate. To observers it appeared that the Legislature acquiesced because its members became convinced that the sheer persistence of the bankers behind the program established its necessity. At any rate, that fact and the observation that all banking interests had finally come to complete agreement in support of the bills prepared the way for reconsideration of the whole matter.

The chief impetus to the turn of the tide, however, was given by the report of the Joint Legislative Committee on Savings Bank and Trust Investments, appointed at the end of the session last year when the legislative leaders acknowledged that the repeated appearance of the bills warranted an investigation of their qualities. The committee had taken testimony and conducted an inquiry over the course of a year and at the end, with the representatives of both parties concurring, introduced the bills. Their conclusions enlisted the support of the majority party leaders and, even if they had wished to dispute the matter, the minority chiefs would hardly have dared to make it a party issue in the face of the unanimous recommendation of the committee and the public evidence of the need of the banks for relief.

By the time the bills came up for passage in the Upper House their proponents did not have to launch a very vigorous campaign. They argued that the old investment limitations not only worked a handicap on the small depositors and the beneficiaries of small trust funds, which are confined to the same investments as the savings banks, but were actually not so safe as those proposed.

With increasing deposits, they said, the old investment field was overflooded and the natural reaction on interest rates was to the disadvantage of the depositors. Furthermore, the narrow limitations prohibited the diversification of investment and the consequent safety which were encouraged in the proposed amendments of the banking law. They declared there was not the slightest doubt of the soundness of the types of issues proposed for new legalization and pointed out that the percentage of a bank's holdings in each was strictly limited, the old limitation of 25 per cent of assets in railroad bonds being applied to the enlarged railroad list including terminal and equipment trust bonds, and a limit of 10 per cent being set for investment in gas and electric companies and again for investment in telephone companies.

No question was raised in the Senate over municipals. When fear was expressed that the other proposals made a departure from the ancient principle of having real estate mortgages for the bulk of investments of savings banks, it was argued that the amendments encouraged such holdings by preventing a bank from investing in gas, electric or telephone companies unless it had 50 per cent of its assets in real estate holdings. To the contention that the proposals tended to put savings banks in competition with commercial banks, it was said that there was no change in the principle of supervision and safeguards.

The Senate passed the measures by a vote greater than two to one. When they came to the Assembly their cause had been aided by a report from State Superintendent of Banks Frank H. Warder showing that the increase in deposits last year in savings banks was the largest on record.

French Securities

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former ways of thrift with the result that the French commercial and savings banks today are overflowing with money. The increases in the past six months have been greater than ever.

The amount of life insurance written has been rising too. Large issues of French industrial and public utility securities have found a ready market at home. The American bankers who sought an entrance into this rich field early this year, when the State Department decided that they might do so, discovered that they were not needed as France had billions of uninvested francs to supply her home requirements for capital. It will be many a day before France will again be in the position where she has to solicit the help of the American investor as she did between 1920 and 1926.

In what Wall Street terms their "technical market situation" French bonds are strongly entrenched. In the first place those that can be, will be called as soon as possible. This insures price stability. There will be very little increase in supply such as depresses the quotations from time to time of various German and South American issues which come along every few months. The absorption by the French people of their foreign loans will also act as a support. Current rates of money in France are very low. The Bank of France reduced its discount last winter to 3½ per cent which compares with 4½ in London, 7 in Berlin, 6 in Rome and 4½ in Amsterdam and Brussels. Open market rates in Paris are under 3 per cent. Long term money, however, is still high. However, there are no French internal securities with the attractive returns possessed by French dollar loans. The French investor knows this and is acting accordingly.

It might be argued that if Germany fails to carry out the terms of the reparations payments, thus affecting the position of her own external loans, France would suffer in that she would receive less than she had anticipated and on which she had depended to cancel a portion of her debt. It is true that she did look forward to the receipt of much more than she has collected and made large commitments in anticipation. Her policies for the past two years, however, have been based on a more normal expectation. Whether she receives the maximum or minimum will make no difference in the credit standing of her foreign borrowings.

If the peace of southeastern Europe is maintained for the next ten years, I look to see France again disputing with London the position of leading investment banker of Europe as she did a quarter of a century ago. Her financiers have displayed great shrewdness in their program of building up credits preliminary to a return to a gold basis. They have gained control of the gold market of Europe and will draw the yellow metal from London as well as from New York when they are ready to do so. Their resources today are sufficient to place a 100 per cent gold cover back of their circulation of about 58,000,000,000 francs, if it were thought advisable to do so. She has foreign balances estimated at $1,500,000,000. It is claimed that her holdings of English securities redeemable in gold, have a greater value than the gold in the Bank of England. No country in Europe has approached stabilization with greater caution and more careful preparation than France and when the decree finally goes forth establishing the franc at a fixed figure (which will be approximately that prevailing for the past year or more) the event will have no disturbing effect at home though it will undoubtedly affect those foreign markets from which more gold will be drawn.

Business has been quiet in France for some time though not profitless. There is no unemployment problem to deal with as in England or in Germany. In 1927 the excess of exports over imports was 2,371,-

Dollar Stabilization Bill

DOLLAR stabilization by legislation is once more seeking the attention of Congress. Representative James G. Strong, Republican, of Kansas, has again introduced into the House a bill to amend the Federal Reserve Act to require the Federal Reserve Board to adjust the policies of the System so as to insure stability of the dollar. So far as the present session of Congress is concerned, the Strong bill will get no further than his similar measure did last session—the House Committee on Banking and Currency.

The committee has begun holding hearings on the Strong bill. Representatives of the Federal Reserve System were heard in March, and the plan is to hold further hearings, perhaps in May, if opportunity offers. Some of the members of the committee are frankly anxious for enlightened opinion upon the question of price stabilization, and the outlook is for lots of hearings but little action.

With Benjamin F. Strong, governor of the Federal Reserve Bank of New York as its star witness, the Federal Reserve System presented before the committee an unbroken front in opposition to the Strong bill. Fundamentally, the objections of the Reserve System to the measure are that it seeks to impose upon the central banking system of the country responsibility for price levels, and to centralize in the Federal Reserve Board power over the separate reserve banks which was never contemplated by the theory of regional reserve banking.

Governor Strong told the committee that he was opposed to price fixing, and believed that no agency should be given that power. In his opinion, stabilization can best be accomplished by the operation of the gold standard. He met suggestions that changes in the personnel responsible for the management of the Reserve System might result in the carrying out of a deliberate policy of inflation or deflation, with the argument that changes in the directorships of the Reserve banks are so gradual that any such deliberate policy was hardly a possibility.

Stabilization at the price of creating a central bank was attacked by Owen D. Young, chairman of the Board of the General Electric Company. In a letter read to the committee, Mr. Young declared that if the Strong bill is to direct the Federal Reserve Board to exercise whatever powers are necessary to produce dollar stabilization, the measure would change fundamentally the whole theory of the Reserve System and create a central bank governed by the Federal Reserve Board, with the boards of directors of the several banks without duties and responsibilities except in the field of detailed administration. Believing in the independence of the regional Reserve banks, Mr. Young expressed himself as opposed to strengthening centralized control in the Federal Reserve Board.

If it deliberately set out to do so, the Federal Reserve System could check a period of declining prices by adopting a policy of inflation. This was the opinion of E. A. Goldenweiser, chief of the division of research and statistics of the Federal Reserve Board. But he told the committee that he saw no reason for the Reserve Board adopting such a policy.

"Whatever the Federal Reserve Board may have done in the past few years," Mr. Goldenweiser said, "I think expansion is traceable to influx of gold. The board action may have had more effect in 1919-1921, but since then I think the influence of the gold has been predominant."

French Securities

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000,000 francs compared with 80,000,000 francs in 1926. In terms of quantity exports last year were over 70 per cent greater than in 1913. During January the improvement continued. Production is also on the gain. The output of the French coal mines that month was 30,000 tons over December, that of pig iron, 13,000 tons and of steel 15,000 tons, above the previous month. Retail prices have been declining so there has not been so much complaint of the high cost of living. The fiscal policies promulgated by Poincare have resulted in annual tax receipts of $2,000,000,000. These bear hard on the rentier class as well as on the small merchants and the farmers who now have to pay their portion of government expense to a degree never known before. It all leads to a strong condition of national credit.

Should Banks Reduce

(*Continued from page 753*)

cent. The mails are clogged with offers, and printers' ink is being worked overtime. With the advent of the radio, even the air is alive with investment offers addressed to the savers of this country. House-to-house canvassers are many and persistent. Just imagine how the business of our competitors would pick up if banks lowered the savings interest rate!

Not Holding Their Own

IT was not until the sale of war bonds that a savings bank account had a real competitor in the market for the savings of the American people. Until that time the savings account had reigned supreme for nearly one hundred years as the ideal savings plan, with the result that millions of people had permitted their savings to accumulate year after year in savings accounts. But with the sale of war bonds, many of these same depositors became interested in making investments and have remained so, at the same time neglecting their long-established savings accounts. This neglect is reflected by a gradual decrease in the increase of savings deposits since 1920. From July 1, 1926, to July 1, 1927, the increase in savings deposits was but 63 per cent of the increase of July 1, 1919, to July 1, 1920. If it were not for the fact that financial institutions competing with banks and paying a higher rate of interest on savings have steadily gained, and at a greater rate than banks proportionately during this same period, the decrease in the increase of savings deposits might be explained in a manner so as not to disturb our bankers' peace of mind, but the facts seem to indicate that savings banks, in comparison with their competitors, are not holding their own.

That the interest rate paid on savings has had a great deal to do in determining the increase is seen in the fact that of the increase in savings in the United States from July 1, 1926, to July 1, 1927, 82.7 per cent was made in the twelve New England and Middle Atlantic States, where the interest rate is high, and only 17.3 per cent in the other thirty-six states, where the rate averages lower. Apparently, in those sections where a high rate of interest is paid on savings deposits, the banks have been better able to meet competition and consequently show substantial annual growth.

Commercial Loan Earnings No Argument for Savers

GRANTING that the trend of interest on commercial loans is downward, yet the average savings depositor is not interested in commercial loans nor benefited by the low rate they bear. Only a very small percentage of savings bank depositors with money in the bank are borrowers to any great extent, and certainly they are not large commercial borrowers. Any argument that a reduction in the interest on their savings deposits is justified by the fact that commercial customers are paying a low rate of interest on their commercial loans would but serve to convince savings depositors that they are being treated unjustly.

On the other hand, if rates on savings

loans were so low that banks could not continue to pay the present rate of interest on deposits, an argument in justification of a reduction would no doubt merit the cooperation of every savings depositor providing, of course, that banks were efficiently and economically operated.

It has been my observation that only since commercial banks have acquired large volumes of savings deposits has the demand for lowering savings interest been apparent. That national banks have been very successful in securing large volumes of savings is clearly indicated by the fact that nearly one-seventh of all individual deposits in the United States are savings deposits in the savings departments of national banks. Naturally, when banks having more than seven billions of savings, and drawing in savings deposits at a rate more rapid than the mutual savings system or the state savings system, undertake to invest these billions of savings commercially at commercial rates, their net profit is certain to be exceedingly small. It is not surprising, therefore, that such banks are in favor of reducing interest on savings deposits instead of making savings loans which earn a higher rate of interest. It will be most difficult to justify a reduction of interest on savings deposits simply because so many billions of savings are being diverted to commercial uses.

It is a sad commentary on American banking that we have so many banks with millions in their savings department and not a savings loan on their books. Instead of reducing interest on savings deposits, already facing the keenest competition in our history, it would be more logical if banks that are lending millions of savings deposits at commercial rates would lend at least a larger part of their savings deposits on savings loans, and in this way increase the income of their banks.

If interest is to be lowered on deposits, a good place to begin would be to lower, or discontinue, interest to commercial depositors, for if there is any one account which has been greatly misused since the war, it is the commercial account on which liberal interest is paid. Apparently the World War taught commercial depositors that it was not good business for them to keep large commercial balances unemployed, and that either they should be temporarily invested or placed on interest in the bank. As a consequence, commercial depositors have demanded, and are receiving today, interest on temporary and fluctuating balances which, prior to the war, were left in the bank without interest. Therefore it seems to me that if interest is to be lowered on deposits, the logical person to begin with is the commercial depositor, in which case a reduction can be partially justified by a low rate on commercial loans.

Problem of Interest Rates

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lieve the public would still continue to avail themselves of our checking account facilities to practically the same extent as they do now, even should we raise the minimum balance requirements quite decidedly.

The Logical Course for Banks

NOT many years ago many banks paid no interest whatever on commercial balances. The paying of interest upon checking accounts was adopted as a competitive measure during the time when we were able to get a high price for our product. Like any manufacturer during the same period, we got more for what we sold, and we also had to pay more for what we bought. During the past few years manufacturers unable to maintain former prices on their products have reduced their prices and likewise have paid considerably less for their raw materials. It seems only logical for banks to adopt, in their own business, that same principle of operation which they have observed and which, indeed, they have recommended in the cases of industries which they serve.

While the interest problem is not so acute upon savings deposits as it is on commercial deposits, nevertheless it is not impossible that sooner or later it may become necessary to lower the rate of interest paid upon savings deposits. For many years the rate in Cleveland has been 4 per cent, and it would not be surprising if in the next few years a reduction to 3½ per cent would be undertaken.

Wall Street's Boneyard

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Incidentally, where secrecy is required, one might as well attempt to tumble over the Woolworth building as ascertain the names of the sellers or buyers. It simply cannot be done. The securities are sold, by lot, for "whom it may concern," and therefore, it is the general policy of the firm never to give the name of the seller. There are cases, of course, where the identity of both buyer and seller is obvious.

Adrian Muller's Start

ADRIAN MULLER, well remembered by the older generation of security dealers in New York as a thrifty and shrewd dealer in corporation shares, was the first to see the possibilities of such an auction sale, to be held intermittently. It follows today the exact plan of procedure as outlined by Muller, Senior. The sale is held each Wednesday, exactly at 12:30 p. m. Preceding the sale, by several days, lists are compiled of the securities to be sold and are mailed to those who might be interested, so that due investigations may be made by prospective bidders. Bankers and brokers, dealers in securities of all sorts, scan these weekly lists eagerly for possible bargains. The auctions always draw a crowd.

The early records of the firm reveal that the first large and successful sale was for the estate of one Mulford Martin more than fifty years ago. Mr. Martin had engaged in the wholesale grocery business and had picked up, during the course of a long and honorable business career, quite a bundle of 2½s and 3s, as well as a goodly assortment of first-class railroad shares. When all of them were assembled, ready for the auction block, the aggregate looked much like the investment account of a 1928 investment trust of the best grade. Probably to the surprise of the executors and certainly to the gratification of the heirs, the assortment of securities owned by the late grocer, fetched $1,250,000 when knocked down to the highest bidder. This opened the eyes of the auction room proprietor to the possible profits of his unique business and, from an examination of all written history, Mr. Muller and his son went after it energetically. At any rate, they builded solidly and well, and so familiar has it become to security dealers throughout the country that the old name was retained—and probably always will be—as a cherished asset of the firm.

The financial panic which followed closely on the heels of the Civil War brought much new business to the auction block. Stock Exchanges were not then efficiently managed and many people distrusted them; securities poured into New York as the most likely market, with the appeal that they be sold for cash at the best price obtainable. Bankers and brokers found here many opportunities for profitable purchases. News spread quickly, by word of mouth, mainly, from banker to banker and from broker to broker. Many a present-day fortune was built upon a nucleus of securities purchased at the auction rooms of Adrian H. Muller & Son.

Establishing Tax Losses

THE thoughtful income tax regulation that one may deduct from an income account, any loss sustained between the purchase and sale price of securities, has brought a vast amount of business to the auction room, and this sort of trade and traffic swells vastly toward the end of each year, when losses are being established by unfortunate investors, or traders, in every market. It is then that one gains an insight into the foolish things that some rich men do with their money. Mining stocks in which the ore has petered out, shares based on inventions which have been proved impractical, oil companies that encountered a dry hole, the securities of corporations engaged in every conceivable line of human endeavor, then come surreptitiously out of the "bottom of the box," are put on the auction block, and usually classed as a single lot, are bid in for a few dollars. The difference between the total purchase price of this bundle of securities—and it may be chalked up as several thousand dollars—and the few dollars received at the auction sale, is a proper charge against current income.

The question naturally arises, who buys these dogs and cats? Plenty of people are eager for them. The expansion of the security business in the last few years has developed a group of men and women who deal in nothing but obsolete and out of date securities. There are a dozen or so of them in Wall Street alone. They haunt the auction

room and always will bid a $5 or $10 for a bundle of securities deemed worthless by the owner, but who hopes to make a sale. They then take these stocks, and closely examine them, share by share, for a possible grain of wheat in the bushel of chaff. By correspondence with the corporation itself and with the secretary of the state in which it was chartered, and by searching all available records, they often find pecuniary reward. Some of them make a livelihood at it.

The prize story told in Wall Street is that a bundle of these obsolete securities, purchased for $2 by a chance-taking dealer, yielded a certificate for 100 shares of the stock of a mid-western steel company which had many years before been merged into a great corporation and had completely lost its identity. By following the back trail, the dealer was able to sell the certificate for $5000, although the expiration date for its exchange had passed by two dozen years. But that may be just another Wall Street story. The fact remains, though, that there is brisk barter in the old stock certificates.

Rattling Dry Bones

THE dry bones of three fantastic financial deals—the Mammoth Oil Company, the Stutz corner and the Florida land boom —have been dragged to the Muller auction block and, stripped bare of their hopes, promises and romance, have gone to the junk man as so much trash. Only one, Stutz Motors, has been able to rehabilitate itself, and that, by having the invigorating breath of Charles M. Schwab breathed into it.

Allan A. Ryan, then president of the Stutz corporation, a prosperous and independent concern, conceived the idea of cornering it and squeezing the life out of the shorts. In a hectic ten-day battle on the floor of the New York Stock Exchange, Ryan forced the stock to $710 per share, before his own resources were exhausted and his corner broke. Stock Exchange authorities struck it from the list of shares in which dealings were permitted. Stutz sank like a plummet and practically the entire capital stock went to the highest bidder at $20 per share on Aug. 2, 1922. Ryan's association with the company ceased when the hammer of the auctioneer descended and, via a trust company, the corporation settled under the protective wing of Mr. Schwab and two or three of his close associates. Incidentally, they have completely rehabilitated the corporation and it is now one of the well-established units of the motor industry.

The demise of the Mammoth Oil Company under the auctioneer's hammer marked one of the succession of reverses sustained by large petroleum interests in their attempts to obtain naval oil reserves in Wyoming, now known far and wide as the "Teapot Dome," because of the peculiar physical resemblance of the mound, within the district, to a teapot. The corporation was formed, with 2,000,000 shares of Class A stock and 5000 shares of Class B stock, which held voting power, to operate this lease. No public offering of the stock was ever made, but it was traded in actively on the New York Curb market for several months and sold well above $50 per share. It marked the final exit of this company, when 113,248 shares were put up for auction by Adrian Muller & Son and brought $3,000 for the entire package, 2½ cents per share. The sale was "for whom it may concern," and, presumably was for the purpose of establishing a tax loss. At any rate, it signalized the demise of the Mammoth Oil Company.

Securities from the debris of the Florida land boom have drifted up to the auction room, going into alien hands at a fraction of their former value. The securities of a single corporation, owning valuable properties in many parts of the state, secured by notes, first and second mortgages with a face value of more than $1,500,000 were knocked down, by "lots," only a few days ago, for an aggregate of about $35,000.

There is always a hint of suppressed excitement in the crowd of sharp-eyed and sharp-witted men who congregate at the auction every Wednesday at 12:30 p. m., for always there is a hope for a bargain. Many of the securities sold with the swing of the fifty-year-old gavel are securities in name only, nevertheless, they represent what were the hopes, dreams and ambitions of a multitude of men, that, somehow did not "pan out." Perhaps, rightfully, the place could be called Wall Street's junk shop, with the reservation that, sometimes, there is a good profit in junk.

Profits in Cotton

(*Continued from page* 799)

tomers could hardly work out other than favorable.

1927 brought the happy combination of reasonable cloth prices to meet competition, a rising raw material market to stimulate purchasing by the trade, and an appreciation of inventory to augment the ordinary manufacturing profit.

Raw Cotton Prices Stable

DURING the last several months the quotations on raw cotton have ruled stable with firmer tendencies as a result of the big drop in last year's crop, which at 12,777,505 running bales, according to the final (March) report, was exactly 28 per cent below the preceding year's record.

Meanwhile domestic cotton consumption expanded from 5,521,000 bales in 1924 to 6,424,000 bales in 1925, 6,687,000 in 1926, and 7,416,000 in 1927. So far during 1928 consumption has run approximately the same as last year.

All that has been said about recovery in the domestic industry applies equally well to the mills abroad, which are large purchasers of American cotton. Roughly, half of the American crop is exported, so that the growers have benefited similarly by increased takings on foreign account in recent years.

Despite the bright picture which the cotton industry has become, a number of serious troubles still persist which prevent its earnings reaching a really remunerative level, and which may possibly bring a relapse into the unsatisfactory conditions under which it so long suffered.

Taking up these handicaps in the order of their importance, and speaking frankly, the worst appears to be the old-fashioned viewpoint of the mill owners. This refers to New England, the cradle of the American cotton industry and for generations its only important field. No more severe indictment of industrial methods has ever been heard than is being pronounced today by bankers, engineers, management specialists and economists against the northern cotton mill owners.

New England Lacks Push

AT a time when general business is moving at a pace faster than ever before, when new methods, new products, new machinery and new organizations are the order of the day, New England goes along in the same old way. Apparently satisfied that the tools and the production designed by the founders are good enough for the present, this great industry is year by year having the foundation cut from under it by the southern mills, with their aggressiveness and other advantages.

The very form in which reports are made will illustrate this antiquated viewpoint. A typical account runs like this: "Treasurer ——— reported that the ——— Mill made a profit last year of $110,000 after paying the preferred dividend, but before depreciation charges." Or, "A profit of $50,000 was carried to surplus and tax reserve after paying 4 per cent on the stock." Or, "The mill lost $50,000 last year and spent $30,000 for new machinery."

Have these people no realization of the development in the science of accounting during the last forty years? Do they not consider proper depreciation charges as an operating expense, and purchase of new machinery as a capital investment? Is the real profit to stockholders the amount left after paying preferred dividends, or before providing for taxes?

Most northern mills are old-fashioned as to plant and continue to operate antique machinery that involves high labor cost. Why not follow the lead of automobile manufacturers; for example, scrap the inefficient machines and install modern equipment, arranged to secure economical operation and mass production?

They are old-fashioned as to product, and take the attitude that the cloth on which they have always specialized is what the public should buy. Why not study their markets, study those peculiar human specimens, Mr. and Mrs. Ultimate Consumer, as to what fabrics and colors and patterns they want? Why not give their commission house that has to sell the merchandise credit for knowing something about cotton goods, take advice from this middleman, and tie themselves in with the jobber to form a workable production-distribution unit? A few mills and commission houses (whose fate is also in the balance) have done this, and they are making money.

Old Methods of Control

THE northern mills are old-fashioned as to manufacturing control. How many have ever made a really scientific forecast of their sales for one year ahead? How many have set up a budget based on this forecast,

and then apportioned and trimmed the expense for each item of materials and labor, with a percentage for profit, into this standard? How many operate on the system of the "minimum inventory" required to fill ordinary and special orders? How many have a comptroller who revises the operating schedules continually so as to conform both with shipments and budget?

Instead of intelligent, scientific management of the 1928 variety, most northern mills are still running along with methods that prevailed in the 90's, and complaining that they do not make money. When a favorable cycle does arrive, they promptly speed up production to a 24-hour-per-day pace and quickly overstock their market. The automobile executives have now become past masters at factory and merchandising control, and overstocking dealers is regarded by them as the worst mistake that can be committed.

Perhaps the New England cotton mill owners are too typically "Bourbon" to change. Perhaps the territory needs another Paul Revere, or some sort of aerial bomb raid, to awaken it.

Cotton manufacturing in the southern states is of comparatively recent origin, but is going ahead very rapidly. Among its advantages are the nearness to the source of supply, cheap labor and absence of union domination, and abundant coal and water power.

Few people who have not studied this development realize the rapid change that is taking place. For the country as a whole, the United States Census Report, published a few months ago and covering the calendar year 1925, makes some striking comparisons. Going back only to 1921, the four-year period brought an increase in cotton goods produced in the cotton growing states of 65.4 per cent, while the increase in the New England states was only 5.7 per cent.

South Takes Leadership

IN 1921 the majority of cotton goods was produced in New England, but by 1925 the value of products manufactured in the South amounted to $929,107,255, and that in New England to only $607,925,188.

The total annual output of $1,714,367,787 is an indication of the importance of this industry. It employed during 1925 an average of 468,352 workers and paid out in wages $377,050,166.

Of this total, sheetings made up approximately $180,000,000, and during the four-year period the southern states increased production 23.9 per cent, while New England decreased 6.9 per cent. Tire fabrics, including duck and cord, amounted to $106,000,000, on which southern states increased 94.4 per cent and New England decreased 30.5 per cent. In print cloth, valued at $98,000,000, the South increased 45.7 per cent and New England decreased 23.4 per cent.

Other products—twills and sateens, shirtings, ginghams, cotton flannel, denims, lawns, drills, plushes, towels, bedspreads, mixed goods and wrapping cloths—tell a similar story.

A peculiar requirement in cotton manufacturing is that it must be carried on in a plant having a considerable amount of moisture in the air. The relatively moist climate of New England proved a great advantage in the early days, for the fiber could not be properly spun in the dry, hot climate of the South. The invention of mechanical "humidifiers," however, removed this handicap. With these humidifiers to add and regulate artificial moisture to the air, a cotton mill can be operated on the Sahara Desert if desired.

Some Leading Companies

THERE were only five cotton mills in the United States that have published reports showing profits of over $1,000,000 last year. The entire thirty-seven mills for which comparable reports are available made a net profit of $18,043,000. The leading manufacturer of automobiles made thirteen times as much profit!

The Riverside and Dan River Cotton Mills, located at Danville, Va., reported net profits of $1,600,000 in 1927, compared with $1,200,000 in 1926. At the beginning of last year the company had combined capital stock and surplus of $23,355,392, on which last year's earnings represented a return of 6.8 per cent.

The Naumkeag Steam Cotton Company, incorporated in 1839, is located at Salem, Mass. In the fiscal year ended Nov. 30, 1926, it made a profit (before certain charges) of $424,000, and in 1927 a net profit of $1,590,000. Combined capital and surplus at the beginning of the year amounted to $10,123,518, on which last year's profit was at the rate of 15.7 per cent.

The West Point Manufacturing Company of West Point, Ga., was established in 1880 and is one of the oldest of the southern mills. In the fiscal year ended Oct. 31, 1926, it showed a profit of $859,000, which was increased to $1,445,000 in 1927. The latter figure represents a return of 8.9 per cent on the $16,264,133 net worth at the beginning of the year.

The Pacific Mills, with headquarters in Boston, was originally established in 1850 and operates mills both in New England and the South. In 1926 it reported a deficit of $928,000, which was turned into a surplus of $1,293,000 in 1927. This net profit, on an invested capital stock and surplus of $42,913,721, represented a return of 3.0 per cent.

The Nashua Manufacturing Company, with mills at Nashua, N. H., was established in 1823 and is another of the big producers that turned a deficit into a surplus, the 1927 profit of $1,209,000 in the fiscal year ended Oct. 31 contrasting with a loss of $178,000 in the preceding year. Last year's earnings were equal, on the $16,510,545 capital invested at the beginning of the year, to a return of 7.3 per cent.

Current Outlook Not Entirely Satisfactory

BUSINESS in the cotton goods trade has been of comparatively restricted volume during recent weeks and, despite the stiffening tendency of raw cotton prices, fabric quotations have continued to follow a mainly downward trend.

Generally speaking, production is too heavy, and a real improvement in the price situation is unlikely to be witnessed until demand and supply become more closely aligned. The present half-year's earnings of the majority of mills are likely to make a poor showing.

Warmer weather has brought a better volume of buying of the lighter weight fabrics of many different varieties used for dress goods, also lingerie and "athletic" underwear. Sales of sheetings and wide gray goods continue at a fair rate.

The Cotton Textile Institute was organized about two years ago by operators representing a large percentage of American mill capacity, and has attempted to do for the cotton industry what similar associations have done so successfully in the leather, automobile and other lines. It compiles and publishes monthly statistics showing production, sales and unfilled orders, classified according to the principal types of goods. This enables each individual mill to see what the industry as a whole is doing and adjust its own operating schedules accordingly.

Cooperation among the members, however, has left much to be desired, judging from reports. The old tendency persists for each mill to overproduce when conditions show moderate improvement and to let the "other fellow" do the curtailing.

An encouraging development is the disposition of some of the New England States to liberalize their labor laws so as to permit longer working hours in cotton mills, and also to lighten the mounting burden of local taxation. This will aid the operators in that section to better compete with southern mills which do not have these handicaps.

A recently published annual report of one of the largest mills stated to its stockholders, in part:

"We wish the inherent difficulties were not accentuated by the unjust treatment the industry is receiving in this State. (Massachusetts.) We are burdened by too much well intentioned but cost-increasing legislation, and by excessive taxation. . . . When in the apportionment of this burden, favorites are played it becomes still more indefensible. As for social legislation, no matter how admirable it may be from the standpoint of social progress, from the standpoint of economics, such legislation is unsound and impossible unless impartially applied in every competing manufacturing State. We cannot assent to the proposition that if the industry cannot be conducted here under such handicaps, it is not worth having."

In concluding this brief review, another encouraging feature is the more progressive viewpoint of some organizations. The following illustration might be cited, taken from the annual report of another of the largest companies:

"Probably the outstanding feature of the past year has been the progressive development of our marketing division. We believe that great advance has been made by ——— in creating an organization to keep in touch with the constantly changing demands for textile fabrics, style and produce these goods and then distribute them in the most economical and effective way. Although ——— continue to act as selling agents of the ——— and give the company the benefit of their long experience and good will, nevertheless the entire product of the ——— is sold and billed in the name of the company by its own employees, thus enabling the company to establish the closest and most effective relationship with a wide variety of customers throughout the world.

"In many respects this year has been a trying one for our entire organization but I am happy that I can refer again with real sincerity to the splendid spirit of cooperation which has made possible all these difficult changes and adjustments to the new conditions which are confronting the textile industry."

Is Banking Different?

(*Continued from page 763*)

charge one of his force without the consent of the operating vice-president. The trust or loan executives, for example, can say that Jones is no longer to work for them, but the operating executive determines whether Jones shall leave the service or be transferred elsewhere within the organization, as circumstances seem to warrant. Hiring and firing is a serious task and deserves careful consideration.

Here are some of the practical results obtained by the operating department during the past seven years. Through daily supervision of all purchases the annual expense of office equipment has been reduced 46.6 per cent, comparing 1920 with 1927, and the present level has been maintained as the normal figure for several years past.

Office printing and supplies in 1927 cost 42.5 per cent less than in 1920, and here again the annual expense has been practically static for a long period. While the cost of maintaining the various mechanical devices owned by the bank has doubled since 1920, the foregoing ratios are tangible evidence that it is cheaper to keep such equipment in first-class condition than to permit it to deteriorate.

Customers' printing, that is, deposit forms, check books, pass books and all other material of that nature, is a hard item to control, yet even this expense decreased 17.4 per cent.

Employees Do More Work

WHILE the bank's deposits have grown from $65,800,000 to $135,300,000, or a gain of 105.6 per cent, in seven years, the number of employees, exclusive of senior officers, has increased only forty-three, going from 601 to 644 people. During the period four new branches employing thirty-one, and three new departments with twenty-five workers have been established, thus indicating that the consolidation of duties and the elimination of unnecessary routine has been highly beneficial. Take the item of supper money, which decreased 18.5 per cent in 1927, as compared with 1920, and it is apparent that each employee is doing both more and better work in the normal banking hours as a result of better organization.

The fact that the bank today is more than double its size in 1921 accounts for the increase in postage expense of 47 per cent. During the growth of the bank larger quarters have been provided for the comfort of customers, and the expense of keeping them clean has advanced 51 per cent. Electric current for lighting the larger space in the most modern manner cost 72.1 per cent more last year than in 1920. Such is the penalty of an increased volume of business.

These figures are all included in the general average of a group of twenty-two items of expense subjected to daily supervision by the executive head of the operating department. This total shows a decline of 14.2 per cent in 1927 as compared with 1920, while in the two preceding years it was 26.6 per cent less than the 1920 base.

About a year ago the need of much larger space was felt by the trust, loan and bond departments, and an expansion program was projected. The problem was to keep each unit in the bank functioning at normal efficiency while the work was in progress. Careful planning accomplished this, even though nineteen departments had to move from one place to another during the period. In fact, the only departments to retain their old locations were the commercial and savings tellers, the safe deposit staff, the bookkeepers, the transit, the collection, the business development and the lunch room. All told, approximately 12,586 square feet of space were added, two more private elevators installed for the use of customers and employees, and a large tube system built connecting the trust and loan departments directly with the security vault, thus eliminating the need to truck securities about the bank, as had been the case heretofore.

Here is a practical demonstration that the same fundamental principles which cut operating costs and increase the efficiency of an industrial organization apply equally well in the scientific management of a bank. This is proof that banking is not different from any other business.

A Partial Payment Mortgage Plan

THE Marshall & Ilsley Bank of Milwaukee a year and a half ago cast about for a plan whereby it might compete with building and loan associations. A system of installment mortgages was decided upon and it has met with much success.

The bank's plan is, in brief, that monthly payment mortgages are made on homes in Milwaukee County, the loans being covered by life insurance. The bank's appraiser values the property and its attorney examines the title and draws the papers. An appraisal fee of $10 is charged and a like amount is added for the legal services necessary. The fee for recording the papers is the actual cost to the bank. An abstract showing clear title must be furnished. If a title guarantee policy is furnished there is no fee for legal services.

On a loan of $1,000, the borrower deposits each month $11 in a non-interest bearing account in the bank's savings department. At the end of the year the total thus deposited is applied, together with any additional amounts that borrower may wish to pay, towards the payment of interest and principal on the loan. The rate of interest is 6 per cent. The mortgage is fully paid in ten years and five months. The interest paid in that time on a $1,000 loan amounts to $370.99. The greatest single payment on the principal in any year is $121.64 and the greatest amount of interest in any year is, of course, the first year when the amount is $60. The following table shows how the mortgage is reduced and how the payments are applied on a loan of $1,000 made on Jan. 1, 1928, at the rate of 6 per cent:

Year	Payments Principal	Balance Principal	Interest on Principal
1928	$72.00	$928.00	$60.00
1929	76.32	851.58	55.68
1930	80.90	770.78	51.10
1931	85.75	685.03	46.25
1932	90.90	594.13	41.10
1933	96.35	497.78	35.65
1934	102.13	395.65	29.87
1935	108.26	287.39	23.74
1936	114.76	172.63	17.24
1937	121.64	50.99	10.36
1938	50.99	.....	....

Trend to Chain Banking

(*Continued from page 762*)

ments. Local control, it is feared, is surrendered and absentee ownership and direction takes its place. Banking profits, it is alleged, are withdrawn from local communities. Concentration of financial power is furthered, and the traditional American banking system of unit banks is forced to undergo modification. Individual views upon the economic soundness of these arguments for and against chain banking will be determined largely by one's attitude upon the principle of branch banking in general.

In view of the growth of chain banking, it is surprising that it has been the subject of so little comment until recently either in defense or in opposition. When branch banking began to spread rapidly in the post-war period, it immediately assumed a front-rank position among banking questions. It must be noted, of course, that all of the banks in the chain are separately organized and hence the public does not know in all cases where the ultimate control of the institution lies. Moreover, many of the chain banks are small institutions, and the fear of concentration of financial power which is such a fundamental reason for opposition to branch banking does not play a very large part in this case.

The McFadden Act prohibited further extension of state-wide branch banking within the Federal Reserve System. Chain banking however, may become essentially a form of unauthorized branch banking. It exists in anti-branch bank territory, it is state-wide in scope, and even in some instances interstate. If the ban against branch banking is sound public policy, should chain banking remain unchecked? What are the relative advantages and disadvantages of the two forms? Most of the objections raised against branch banking, the validity of which we have assumed merely for the sake of argument, apply equally to chain banking. It is true that there always remains at least a semblance of local ownership and control, there are some local stockholders and directors and a local name. But local control may or may not be real.

On the other hand, branch banks have certain advantages over chain banks, especially as a method of control of outlying city banks. The branch can be operated with less overhead expense. A branch can make loans directly up to the full loan limit of the head office and can otherwise offer fuller banking service. Moreover, a branch bank

must unqualifiedly sustain all of its units, whereas, in case of disaster to a local affiliated bank, the depositor has only the moral support of the parent bank.

Difference in Supervision

THE most serious objection of chain banking as contrasted to branch banking lies in the difference in regulation and supervision. Simultaneous examination of all the banks in a chain system probably could not be undertaken and, in fact, the institutions in a single chain may not all be subject to the same supervising authority, since some of them are state banks, some are national banks, and in some instances the chain may include banks in two or more states. Simultaneous examination of at least the principal offices of a branch system is feasible and was prescribed by the Federal Reserve Board as a condition of membership for state banks by Section VI, Regulation H Series of 1924. For this reason the verdict of supervising authorities is generally against chain banking. A banking commissioner of Wisconsn characterized chain banking as "ten-fold more undesirable" than branch banking. The superintendent of banking in a western state where branch and chain banking are both practised stated that he regarded branch banking as preferable. The state banking authorities in Georgia disclaimed responsibility for the collapse of the chain banking system in that state on the ground that they were powerless under the law.

What legislative restraints are at present placed upon chain bank extensions? In the first place, the national banking act and most state banking laws prohibit banks incorporated thereunder from owning the stock of other banks. Exceptions are made for stock in the Federal Reserve Bank and frequently for foreign trade financing institutions or agricultural credit corporations. However, the laws of some of the states do not prohibit ownership of bank stock by trust companies. Professor Barnett, in his monograph on state banks and trust companies, prepared for the National Monetary Commission in 1909, called attention to this weakness in the laws. The soundness of his position has been shown recently. The Bankers Trust Company of Atlanta, which failed in July, 1926, was a non-banking corporation and was not under the supervision of the state banking department. But the name "trust company" has come to be generally accepted by the public as synonymous with bank. Consequently, the same restriction as to holding bank stock should be imposed on trust companies as state banks, where this is not already the case.

Some State Legislation

IN the beginning of this paper attention was called to an unsound method of building up chain systems by borrowing the money from an established bank to provide the capital for a new bank or to buy up an established bank. The real banking capital of the whole chain was only the amount actually held in the first bank. A disaster at any point would cause the whole system to topple over like a row of bricks. Some states have legislated against this practice. The state banking laws of California, for instance, provide that,

"No bank shall hereafter make a loan secured by the stock of another bank, if by making such loan the total stock of such other bank held by such loaning bank as collateral will exceed in the aggregate twenty-five per centum of the capital stock of such other bank; provided, that no loan upon the capital stock of any bank shall be made unless such bank has been in existence at least two years and has earned and paid a dividend upon its capital stock; and provided further, that no bank may loan more than five per centum of its assets upon the capital stock of any corporation whatsoever as collateral security."

Colorado has a similar restriction. Wisconsin statutes place the aggregate limit at 10 per cent of the capital of the bank whose stock is offered as collateral. Restrictions of this type also prevent a bank from controlling another institution through its loaning power. By providing that a bank must have been in operation at least two years before its stock is acceptable collateral, as is done in the California law, the establishment of a new subsidiary bank by this process can be effectually prevented.

The Clayton Act of 1914 in general prohibits interlocking directorates or interlocking of executive officers. By the Kern Amendment to the Clayton Act a somewhat greater degree of latitude was permitted. With the approval of the Federal Reserve Board, an individual may serve as officer, director, or employee of a member bank, and at the same time as officer, director, or employee of not more than two other banks, provided such other banks are not in substantial competition.

The main responsibility of the supervising officials, Federal or state, under present laws, is to make sure that unsound banking practices are checked in all banks, whether independent or parts of a chain sys-

tem. Any attempt upon the part of managers of a group of banks to distribute their own notes or the notes of enterprises in which they are personally interested to the banks under their control should be stopped at once. If this is not possible under the existing laws, every effort should be made to secure necessary legislation. Questions of public policy upon bank ownership and control may perhaps await further experience.

The Company's Liability

IN the event of complete breakdown of a chain of banks owned by a holding company, depositors would not be able to recover anything from the stockholders since the holding company stock does not carry any super-added liability. If there were other assets owned by the holding company, these could be used to meet the double liability assessment on the bank stock, but if not, there would be no recovery at all. This points clearly to requiring the holding company to have other assets equal in amount to the par value of the bank stock, or admitting that double liability is ineffective. The Comptroller reports that collections from assessments levied against the shareholders in 660 national banks whose receiverships have been closed were only 48.79 per cent of the amount assessed. This is not a very imposing showing, and yet it is undoubtedly better than would be made if comparable figures were available for state bank liquidations. Nevertheless, the amount collected in the national bank liquidations has been in excess of $25,000,000. If bank owners are permitted to escape this burden by the holding company device, the double liability provision will be largely nullified.

One other tendency noted in some of the holding company organizations, while not inherent in this form of control, is deserving of careful consideration. The use of preferred stock or non-voting common stock in the financial set-up of holding companies has made it possible to control large aggregations of capital with a relatively small capital investment. The classical example of this in railroad finance is the old Rock Island Company. By the ownership of stock having a par value of about $25,000,000, but a market value of only a few hundred thousand dollars, at its lowest level, it was possible to control over 15,000 miles of railroad with a capitalization of $1,500,000,000.

Bank stock has traditionally been issued only as common stock. All those who have risked capital in banking have had an opportunity to share in its profits as well as its possible losses. This is as it should be. Preferred stock may have a legitimate place in the public utility field or in enterprises with a large amount of fixed capital. But banking institutions are largely operated on other people's money anyway. In the typical bank the deposits are about ten times the capital. In the event of failure, therefore, the stockholders seldom recover anything, but on the contrary may pay a 100 per cent assessment. In 660 receiverships of national banks closed between 1865 and 1926, stockholders paid $25,435,920 in assessments and received only $3,799,031 at the final settlement.

It is clear, therefore, that in case a bank holding company proved unsuccessful, the preferred stock would lose as heavily as the common. On the other hand, if the enterprise is successful and the profits are large, the holders of the common stock are in an unusually fortunate position. Assume a bank holding company with $1,000,000 of common and $5,000,000 of 6 per cent preferred stock, a proportion which may be found in actual practice. Net earnings of 10 per cent on the company's entire capitalization would amount to $600,000. Of this, $300,000 will be required to pay the preferred dividend, leaving an equal amount to the common stockholders, an earning of 30 per cent on the investment. This possibility seems to invite the promotor and speculator into a field where he should be a most unwelcome figure.

Foundation Donations Exempt

THE Commissioner of Internal Revenue at Washington announces that the Educational Foundation of the American Bankers Association is exempt from taxation under the Revenue Act, and adds that "inasmuch as the Foundation comes within the provisions of Section 231(6) of the statute, contributions to it constitute allowable deductions in the income tax returns of individual donors."

Changes in New York's Legal List

(*Continued from page* 769)

in two or three states where there are constitutional limitations on tax levies.

Several things have been done with regard to the debt limitation. In the first place, it has been changed from 7 per cent of real and personal property to 12 per cent of real property. County debt is included only if it is in excess of 5 per cent. If there is no county wholly or in part within the city, the city may incur an additional 3 per cent debt. Only a proportionate part of overlapping debt is to be included in the city debt. The debt limitation provision is entirely removed from cities which have taxable real property of an assessed valuation in excess of $200,000,000 and a population of 150,000 inhabitants.

After 1938 no municipal obligations issued shall be authorized investments for savings banks unless the municipality, county or district have unlimited taxing powers. This gives the several states where the limitation exists about ten years to amend their consituations.

Loans on Collateral

FOURTH: Loans on collateral. The law has previously provided that savings banks may loan on collateral on demand, the collateral being certain bonds. The new law changes this to read that loans may be made for ninety days and that all bonds that are legal investments can be taken as collateral.

The savings banks of New York are more carefully restricted by law as to their investments than any other form of institution. In other states the savings banks have wider power. Life insurance companies in New York and elsewhere have a much wider field and can purchase many securities that savings banks cannot own. State and national banks and trust companies, accepting as they do many millions of dollars in thrift or special interest deposits, are not restricted as to the manner in which such deposits must be invested. However, because of their mutual character and the fact that they are organized and conducted to promote thrift and savings for the average citizen, and managed by a board of trustees, the legislature in its wisdom has seen fit to place savings banks in a special class and to prescribe for them investments of the highest type. There is undoubtedly wisdom in this, especially when it is considered that trustees of estates are limited to the same investments, and trustees of estates are not always experienced bankers. While the experienced are perhaps limited by the legal list, surely the inexperienced trustee is protected by it.

It is impossible to believe that the New York legal list has reached its limits, or that there will be no additions to it in the next decade. Experience will show that there are still sound investments that can properly be made legal. What these will be I do not pretend to guess, but I believe that we should keep an open mind on the subject and when it seems opportune that we should suggest to the legislature other things that careful study show to be safe.

(Since the foregoing was written the bills have become laws.)

Downward Trend of Interest

(*Continued from page* 755)

shrinkage in the demand for capital. The figures for new securities issued by corporations, foreign governments, farm loan institutions, and municipalities since 1921 are as follows:

Year	*New Capital Issues excluding Refunding*
1921	$3,576,738,412
1922	4,313,362,798
1923	4,304,425,893
1924	5,593,179,972
1925	6,220,169,333
1926	6,344,133,929
1927	7,735,319,725

There was surely no lack of demand for capital throughout this period. Both corporations and governments, at home and abroad, have asked for new capital in our market in unprecedented volume. They have been able to get ever-growing amounts at a rate of interest which fell year by year. Despite this large demand the volume of savings brought to the investment market has exceeded the sum which borrowers with good credit were willing to take at the

rates which had previously prevailed. Since those who demanded capital would not take the entire supply at the old price, the competition of lenders who desired to invest their capital led them to offer it at lower interest rates. This is a phenomenon with which we had not been familiar in America for the decade and a half which began in 1905 and ended in 1920.

The supply of capital for the nation as a whole during any period is determined by the excess of its production over its consumption. Whenever production is increasing rapidly as it has been in recent years, there is bound to be a large supply of investment funds unless there is a rapid increase of expenditures for things which are currently used up in maintaining our standard of living. This surplus production which is not currently consumed constitutes the national savings. It is available for investment, either at home or abroad.

The supply of national savings has been so large that it has pressed down interest rates in the face of our unusually large demand for capital at home, and an entirely unprecedented demand for American credit from abroad. The secret of our huge savings during these last few years is to be found in the rapid increase of output which has taken place since the war. The index of industrial production constructed by the Harvard Economic Service shows an increase of 40 per cent from the years 1919 to 1926. This includes the output of both manufacturers and minerals. Agricultural output has not increased much during that period, but has maintained a higher level than during the pre-war period.

50 Per Cent Gain in Savings

WITH such a growth in output, it has been easy to increase our savings even though we were maintaining higher standards of living than ever before. When the present national product in industrial lines is contrasted with the pre-war period we find that the increase has been more than 50 per cent. The number of people engaged in producing these things has increased more slowly, and prices have increased much less than wages. As a result, the level of wages is today two and one-fourth times as high as it was in the pre-war period, while the cost of living is scarcely one and three-fourths times what it was then. In such a situation it is not difficult to save at the same time that the general standard of well-being is being raised.

The statistical evidences of savings are found in the growth of life insurance assets, the increase of building and loan associations, savings banks deposits, and the purchase of new security issues. These have reached figures which would have seemed fantastic to the pre-war statistician.

A few comparative figures will give some notion concerning this increase in savings. In 1922 the life insurance premiums paid amounted to $1,686,000,000. By 1926 they had increased to $2,624,000,000, and last year they were just about three billion dollars. The net addition to their assets had grown from $715,000,000 in 1922 to $1,402,000,000 in 1926. It was of course larger in 1927. Building and loan associations increased their assets by $371,000,000 in 1922 and by $767,000,000—more than double—in 1926. The absorption of new securities by investors has been set forth. It is this large growth in the supply of capital, bottomed upon our increase in industrial output, which explains the downward course of interest rates since 1920.

The Demand for Funds

WHAT lay behind the increase in demand? Demand for funds comes from those who desire to spend money at present but who have not sufficient resources of their own to carry out their projects. These projects usually involve the production of durable things such as railroads, public utilities, manufacturing plants, buildings, and roads. The desire for durable goods is at the foundation of the demand for capital. Whenever people desire such long-lived structures or machines and decide to have them produced, they thereby contribute to the demand for capital. If their own savings are not adequate to carry out their projects they come to the capital market and borrow funds, by the sale of securities or otherwise.

The volume of construction of durable things has been proceeding at a high rate since 1922. Buildings, residential and otherwise, and automobiles constitute the most important demand for such goods. Then follow the construction of public utility plants, the building of public roads and the expansion of factory plants and of railroads. All of these have made a large demand for capital. In addition, the demand for savings has been augmented by foreign borrowing. Our loans abroad have amount-

ed to well over a billion dollars annually for the last few years.

What is the outlook for the future with respect to the supply of and the demand for capital? There is no likelihood that the savings of our people will decline. Production is large and the habit of devoting a portion of our output to provision for the future has become firmly established with us. From our corporations, which set aside roughly one-third of their profits as surplus, down to the common laborer who is paying for a home or making installment payments on his automobile, the practice of saving is established. As long as production maintains its present high level, the supply of capital will be large in this country. When business depression comes and reduces output, savings will doubtless fall somewhat. But they will not decline as much as one would expect. People are more cautious about spending in hard times, and so make substantial savings even out of reduced income. The supply of capital in this country will continue to flow into the investment market in large volume.

On the demand side, the outlook is more difficult to gage. The savings of the nation show less variation than do the borrowings for capital purposes. Since fluctuations on the demand side are wider than on that of supply, the variations in rates of interest depend more upon this borrowing side of the equation. While it is difficult to say what the demand for capital will be during the next few years, it seems probable that the outlook is rather for the slackening of the increase than for an acceleration.

Making Up Lost Time

At the close of the war we were faced with a large deficit of building operations, railway improvement and public utility facilities. We had been busy during the war providing our armies and navies with the goods and services which they needed to carry on their operations. Many other things had been left undone, in order that we might devote our economic resources to military endeavors. Upon the close of hostilities, we proceeded to make up this deficit of durable goods which were considered necessary to comfortable and satisfactory living and to efficient production.

The immediate future gives no promise of a corresponding increase in the demand either for building construction or for automobiles. This year will undoubtedly see a great activity in both of these lines, but compared with the increase in the supply of capital, it is not of proportions to put any strain upon the bond market.

The demand for larger public utility and manufacturing plants and for additional railroad facilities will undoubtedly continue. But hardly at a higher rate than we have witnessed in the last five years. It is a fairly safe prediction, then, that our domestic demand for capital will not increase materially. If the rate of interest falls, we will undoubtedly find new sources of demand for capital. But they will come into the market only on the basis of lower rates and higher bond prices.

Nor is there a prospect of increased foreign borrowings. The European nations, especially Germany, have been bidding actively for capital here during the last three years. That source of demand will hardly continue in large volume. France, despite popular notions to the contrary, does not need to borrow capital and will not do so. She may refund a few loans which are already outstanding, but she will not demand new capital. For France is essentially a capital accumulating and capital exporting nation. Unless Russia can reorganize herself politically and industrially in such manner as to command confidence in our capital market, European borrowing is certain to decline after 1928. The less developed nations of South America and the Orient will borrow considerable amounts of capital. But upon the whole the outlook is not for a great increase. It is a safe prediction that the total demand for capital in the next half-decade will not increase as rapidly as does the supply of our investment funds.

With this outlook for capital accumulation and for investment demand the investor will be obliged to accept smaller returns upon his funds. There have been periods in the history of this country when good railroad and industrial stocks sold at a price which capitalized their dividends at 4 per cent and their earnings at 6 or 7 per cent. High-grade bonds sold on a 3½ per cent basis; and good government securities yielded even less. Toward such an era our industrial and financial process is carrying us during the next few years.

On the Fringe of Finance

(*Continued from page 760*)

for expansion and who are willing to set an exceedingly low price on their shares when the pinch of circumstances is felt. Investment trusts are popular just now. A few of these—it should be recorded that it is a very few—have fallen into the hands of the high-pressure boys.

The rounding up of these slick gentry is going to be a mighty task. They maintain excellent lawyers. What crime is committed when a broker calls a prospective customer and sells some shares of stock to him? None at all. Because the salesman is a good talker, does that make him amenable to the law? Should he sit behind the bars because the customer cannot resell the stock for what he paid for it?

The Martin Act of New York will round up a few of them. The Blue Sky laws of other states will gather in some of the flounderers. But, generally, they step gingerly within the letter, if not the spirit, of such security laws as may be.

THE legal and protective bodies are at work, however. The Better Business Bureau of New York, the Attorney-General's department which handles security complaints, the New York Stock Exchange and the Unlisted Security Dealers' Association of New York are all cooperating to put an end to the "racketeers."

Of course, not every broker who uses the telephone to solicit business is a crook. Most of the security business of the country is handled over the telephone, it is recalled. The high-pressure boys have merely taken a leaf from the book of the legitimate and trustworthy broker and stock salesman, and have raised his persuasiveness to the Nth degree, and this in behalf of doubtful securities.

Possibly the only protection for the investor is a definite and firm refusal to talk over the telephone or otherwise with an unknown voice trying to sell an unfamiliar stock. A call for the police if the insistence becomes embarrassing might be effective.

New Book

Investment Trusts. By Theodore J. Grayson. John Wiley & Sons, New York. $5.

There are in the United States about 135 investment trusts with aggregate resources of about $600,000,000. The author, Associate Professor of Finance at the Wharton School, University of Pennsylvania, has given much study to the English and Scotch trusts and has examined every important investment trust in America. The book covers the entire history of the investment trust—how it operates and what should be its place in the financial structure. There are chapters on the British investment trust operation and accounting methods; methods of investment earnings; management; and, finally, an analysis of a typical investment trust over a seven-year period; also an analysis of an unusual trust over a thirty-seven year period. Chapters are also included on special types of investment trusts and American institutions akin to the investment trusts.

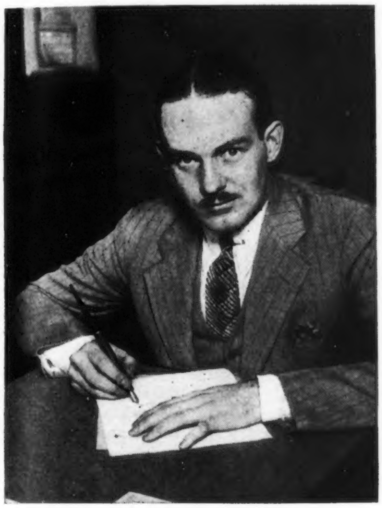
Convention Calendar

Date		State Associations	Place
April	14-18	Florida	Tampa, Florida and Havana, Cuba
April	26-27	Louisiana	Edgewater, Miss.
May	3-4	Arkansas	Little Rock
May	3-5	North Carolina	Pinehurst
May	4	New Hampshire	Manchester
May	8-10	Texas	San Antonio
May	15-16	Oklahoma	Tulsa
May	16-17	Maryland	Old Point Comfort, Va.
May	16-17	Mississippi-Tennessee Joint Convention	Memphis, Tenn.
May	16-18	Pennsylvania	Atlantic City, N. J.
May	17-19	New Jersey	Atlantic City
May	17-19	Alabama	Mobile
May	22-23	Missouri	——
May	23-25	Ohio	Cincinnati
May	23-25	Kansas	Lawrence
May	24-26	Georgia	Savannah
May	25-26	New Mexico	Tucumcari
June	6-9	California	Pasadena
June	7-8	South Dakota	Sioux Falls
June	7-9	Virginia	Old Point Comfort
June	11-12	Oregon	Gearhart
June	14-15	West Virginia	White Sulphur Springs
June	14-16	Washington	Longview
June	15-16	Connecticut	Manchester, Vt.
June	15-16	Massachusetts	Manchester, Va.
June	18-20	Iowa	Cedar Rapids
June	18-20	Minnesota	Pequot
June	18-22	Michigan	S. S. Noronic, Mackinac, Parry Sound & Owen Sound
June	19-20	Idaho	Boise
June	19-21	South Carolina	Myrtle Beach
June	20-22	Illinois	Rock Island
June	22-23	Colorado	Troutdale in the Pines
June	22-23	Utah	Ogden
June	23	Maine	Belgrade Lake
June	25-27	New York	Upper Saranac
June	26-27	Wisconsin	Milwaukee
July	10-11	North Dakota	Dickinson
Sept.	3-4	Wyoming	Yellowstone Park
Sept.	3-4	Montana	Yellowstone Park
Sept.	12-13	Kentucky	Louisville
Sept.	19-21	Indiana	Gary
Oct.	27-28	Arizona	Globe

Date		Other Associations	Place
April	16-19	A. B. A. Executive Council	Augusta, Ga.
May	7-10	U. S. A. Chamber of Commerce	Washington, D. C.
June	11-16	Assn. Nat. Credit Men	Seattle, Wash.
June	13-15	Nat. Assn. of Mutual Savings Banks	Swampscott, Mass.
June	15-16	New England Bankers	Manchester, Vt.
June	18-22	American Institute of Banking	Philadelphia, Pa.
Oct.	1-4	American Bankers Assn.	Philadelphia, Pa.

A Fellowship of the Educational Foundation

THE American Bankers Association has established a traveling fellowship in the Graduate School of Business Administration of Harvard University for the purpose of further investigations into causes and remedies for bank failures, and an appropriation has been made to defray the expenses of the work. On recommendation of O. M. W. Sprague, acting dean of the school, William McKinley Edens has been appointed to the fellowship and will begin the work of the investigation in June.



William McKinley Edens

The first part of the investigation will cover the Chicago Federal Reserve district, which comprises the states of Illinois, Wisconsin, Iowa, Michigan and Indiana. It will be directed toward conditions particularly relating to areas where there have been numerous country bank failures and will seek to develop results especially helpful to them. Mr. Edens will be advised in the prosecution of his work by Acting Dean Sprague, who last year conducted an extensive investigation on national lines into the problem of bank failures under the direction of the Economic Policy Commission of the association. The commission's recommendations as based on Mr. Sprague's findings were presented to the national convention of the association last fall at Houston, Tex., and were unanimously indorsed in its general resolutions.

Mr. Edens is a graduate of the University of Illinois and is a former bank examiner in Iowa, where he made an exceptional record for efficiency and acquired extensive first-hand understanding of the territory and conditions he will investigate. He has made an outstanding record in banking and economic subjects at the Harvard Graduate School of Business Administration, which led to his being highly recommended for the fellowship by the school authorities. He is president of the Business School Club. His investigations will be conducted under joint supervision by the American Bankers Association and the Graduate School. It is expected that the work will be completed during 1928 or early in 1929.

The plan of the fellowship was drawn up by a committee from the Board of Trustees, American Bankers Association Educational Foundation, composed of John H. Puelicher, Chairman of the Board of Trustees of the Foundation; F. N. Shepherd, Executive Manager of the Association; Harold Stonier, National Educational Director, American Institute of Banking, and W. Espey Albig, Secretary of the Foundation trustees. Their recommendations were reviewed by President T. R. Preston and First Vice-President Craig B. Hazlewood of the Association.

Brokers' Loans Hearings

(*Continued from page* 781)

satisfied that they are safely and conservatively made.

"If further expansion occurs to a place where it is extremely dangerous and bordering on speculation, I have confidence in the banking fraternity that they can correct the situation themselves. If they cannot, they can come to the Federal Reserve System, which has the two corrective measures I have mentioned. There is no constructive legislation I can recommend to the committee at this time to change the present credit situation of the country."

The views of Edmund Platt, vice-governor of the Federal Reserve Board, were equally as reassuring as those of Governor Young. The vice-governor, however, placed some of the responsibility for the super-abundance of money in the country upon the public debt policy of the administration.

"It seems to me," said Mr. Platt, "that a whole lot of money is thrown into the investment market all the time by the rather unnecessarily rapid payment of the public debt. If the Congress should pass some kind of a tax reduction bill and leave in the hands of the public a little more purchasing power instead of bringing it to the Treasury, and having it paid to bondholders, who must necessarily reinvest it, that would tend possibly to lower things a little.

"I do not think that the present situation is dangerous. I do not think anyone could tell whether it is or not definitely. I think, though, that the rate of increase in brokers' loans that was going on in January was enough to make some people do some thinking."

The nearest thing to the official expression of the Federal Reserve Board itself upon the brokers' loans situation is contained in the Federal Reserve Bulletin for March, which was the issue following upon the appearance of board members before the Senate committee. The board discusses the part played by broker's loans in bank credit conditions over the past five years.

Brokers' Loans Over Five-Year Period

"FROM the point of view of the lending bank," the Bulletin said, "loans to brokers are a part of the open-market portfolio, which also contains the banks' holdings of investment securities and of paper purchased from dealers in acceptances and in commercial paper. A large part of the open-market portfolio is generally considered by the banks as constituting their secondary reserve.

"The outstanding volume of bank credit increased during the five-year period from 1922 to 1927 by about $14,250,000,000, and of this total about $8,650,000,000 represented the growth in loans to customers, which increased by 34 per cent during the period, and $5,600,000,000, the growth in open-market holdings, which in the aggregate increased by 36 per cent. The increase was relatively largest in borrowing by brokers on the security of stocks and bonds, while resort to the banks through the open-bill market and the market for commercial paper decreased slightly, increased holdings

of acceptances being somewhat more than offset by decreased holdings of commercial paper. Direct loans to customers constituted at the end of the five-year period, as at the beginning, close to two-thirds of the total credit extended by banks both in the form of loans and in the form of investments.

"During this five-year period deposits of all banks in the United States increased by about $14,000,000,000 to the level of $51,600,000,000, of which about $20,375,-000,000 was in non-member banks and $31,-225,000,000 in member banks. Analysis of deposits, either as to origin or as to use, is not possible on the basis of existing information, but since total deposits necessarily approximate total loans and investments, it is a fair assumption that deposits have arisen from various operations of the banks in approximately the same proportions as these operations bear to the total loans and investments.

"Furthermore, since most of the reserves of non-member banks are held in the form of deposits with member banks, and all of the reserves of member banks are held with the reserve banks, the reserve balances carried by the reserve banks for their members may be taken as supporting the entire volume of bank deposits outstanding, and sonsequently all the loans and investments which these deposits represent. Member bank reserve balances and changes in these balances may, therefore, be analyzed, roughly, with reference to the different classes of loans and investments represented by the country's bank deposits.

"According to this analysis, the growth of about $14,000,000,000 of bank deposits from 1922 to 1927 was based on an increase of but $450,000,000 in member bank reserve balances. The increase in member bank reserves made necessary by the growth in bank loans to customers was about $260,-000,000, and that arising out of the increase in the banks' open-market portfolio about $190,000,000. It would also appear from this analysis that of the total of $2,280,-000,000 held by the reserve banks in June, 1927, as reserves against the country's bank deposits, about 4 per cent, or $90,000,000, represented reserves against deposits arising out of loans to brokers and dealers in securities, an increase of about $35,000,000, or 70 per cent, for the five-year period. During the same period reserves against deposits arising from other operations of the banks increased by about $410,000,000, or 23 per cent."

Read the Warnings

The warnings in the Protective Section of this magazine are for the benefit of your bank. Put all of the bank staff on guard by disseminating this information and thus forestall the professional schemer.

The contents of the JOURNAL are selected with the sole object of sending to the banks information useful in the conduct of the banking business. That banks may make this information available to many members of their staffs, there is a group rate for five or more subscriptions. Hundreds of banks have exercised this group rate subscription privilege.

Group Subscriptions

The privilege of the group subscription rate is extended to every member bank of the Association. Make the information the JOURNAL carries each month available to many members of your staff.

Expanding Credit

(*Continued from page 778*)

ary 21 and March 21 from $21,580,000,000 to $21,930,000,000 an increase of $350,000,000. Of this increase only $30,000,000 was in secured loans, $192,000,000 in commercial loans and $128,000,000 in investments.

In these figures we have a specific picture of how the decrease in the gold base has been accompanied by a general increase in the loan structure. In detail, the picture reveals the important part now played by the expansion of commercial needs which formerly played a minor part. It also reveals that the banks have hastened to increase their own holdings of investments. The comparatively moderate expansion disclosed as to loans secured by stocks and bonds reflected circumstances which have excited especial comment in connection with the present stock market, and that is that a scarcely commensurate expansion in brokers' loans at the banks has accompanied the tremendous rise in volume of business in recent weeks. This has been partly accounted for by the theory that a large share of the purchases of stocks was for investment purposes and not for speculation on margin financed by call money, and was taken out of the market for cash. Added to this is the theory that many interests other than banks are placing money direct on call, such as corporations with large unemployed cash surpluses, and therefore the full picture is not shown in the bank figures. Consistent with this view, brokers' loans reported by New York City member banks increased between February 21 and March 28 by about $99,000,000.

During this period, Federal Reserve policy in respect to the money market has apparently been one of quiescence. In the five weeks between February 21 and March 28 total bills and securities of the Federal Reserve banks, which represent the factor of Federal Reserve credit in the money market, changed very little, increasing from $1,216,000,000 to $1,257,000,000, or by $41,000,000. Bills discounted, representing voluntary borrowing at the Federal Reserve banks by the member banks, increased by about $63,000,000, while United States Government securities held by Federal Reserve banks decreased about $15,000,000, and bills bought in the open market decreased $7,000,000. The volume of United States Governmen securities held by the Federal Reserve banks, which represents the item through which these banks on their own initiative, as a matter of policy, either inject money into the market or withdraw it, has remained virtually stationary during the past month and a half.

Chinese Imports Slump

CHINA'S imports of foreign merchandise for the first nine months of 1927, as compared with the same period for 1926, showed some pronounced increases in important staples, according to the preliminary returns of the forty-five ports under the Maritime Customs. Heavy losses accompanied trade in other commodities, however, and tended apparently to reduce the total volume of imports for the 1927 period considerably below that of 1926.

With a few exceptions, the trade increases and decreases connected with the various port returns reflect the condition of China as a whole, according to the United States Department of Commerce. The bulk of the losses affected the ports of the Yangtze Valley, the center of military disturbances, during the year. Imports into Shanghai, the great distributing center for China, were generally weak, except for electrical materials, dyes, fuel oil, kerosene, and machinery. Trade in Hankow suffered heavily, machinery being the only big item which showed an increase. Kerosene slumped from 14,000,000 gallons to 5,000,000.

WHAT DO YOU THINK?

Being a more or less personal talk between the EDITOR *and the* READER

With a Cutting Edge

HERE is a newspaper advertisement, recently published by the National City Bank of Rome, Georgia, which seems to be a very effective way to preach the gospel of crop diversification in farming:

"WE HAVE PUBLICLY announced and pursued this policy for the past seven years," says the bank in a display type. "We know it is the only sound basis for financing the farmer. It is gratifying to see that this policy has operated to the benefit of the farmers; and it has proved sound from a banking standpoint.

"As the planting season approaches, and

in order that farmers may know in advance what our policy of agricultural financing will be, we again make a plain statement:

"The financial condition of the farmer has greatly improved during the past seven years. Yet we believe that agricultural conditions, as we have them, and the future, as we see it, calls for plain talking. Making this statement now works no hardship on anyone.

"We expect to extend credit to those farmers who are careful to grow ample food and feed crops to meet the needs of their farms.

"We know it is unwise and unsafe to buy on credit those products that can be grown on the farm, hoping to pay for them from a cotton crop.

"There must be grown on the farm those necessities which heretofore have been bought with the proceeds of cotton.

"We are not dictating to anyone. We are pursuing a policy we know to be right, and we make it known in advance. We would not be doing our duty as a bank if, as the planting season approaches, we fail to stand vigorously for a sound farming program. This is the only safe program, approved as such by bankers and farmers throughout the South.

"Not only do we emphatically support this wise program, but as bankers we are not interested in making loans (no matter how good the security) if we think the funds derived from such loans are going to be used in a way that will require us to realize on the security pledged.

"This bank will in the future, as it has in the past, do its full part in event of a failure of food and feed crops where proper effort has been made to produce them. We are making known our intentions under normal conditions."

In these days when so much advertising is just language it is refreshing to find an advertisement with a cutting edge

Serving His Community

"DO what you can for the town in which you live," may not be actually hung up in every bank but we believe that is a vital part of the creed of the bank presidents of the nation. Reviewing the life of the late George A. Rogers, president of the Abilene (Kan.) National Bank, who died early in March, C. M. Harger of the same city recalls a typical act of community service by Mr. Rogers:

"As receiver of the water-works system he worked out a plan for the city's benefit. The city water was from wells and the creek, insufficient for the town's needs. Finding that twelve acres including Sand Springs was owned by an eastern estate he bought the property for $5,000 in his own name. Then he built a pipe line to the springs at a cost of $65,000 and as receiver of the plant offered the entire system, including the Sand Springs extension to the city for $85,000. The city voted the bonds and secured the finest system of water in the state almost as a gift. Many a town of this size has spent more than a quarter million dollars for a poor supply of water—Sand Springs alone was worth more than that to Abilene but it was purchased for exactly what Mr. Rogers paid for it, $5,000. The city ever owes to him its thanks for this splendid service, an asset to the city that is its richest possession. He did it because he loved Abilene, his home, and wanted it to be happy. It seems strange now that a considerable portion of Abilene then opposed the purchase of the plant because of the price—Abilene would not wipe out Sand Springs today for half a million dollars and it was in effect a gift from George Rogers."

The Interest Rate

WE have received many letters concerning Journal articles on the rate of interest paid on deposits. One, by S. R. Spencer, vice-president of the Columbia National Bank, Columbia, S. C., is typical:

"We have read with extreme interest the discussions in the February and March issues of your Journal by Mr. Mitchell, Mr. Hawes and others in regard to the absorbing subject of 'Interest Paid on Deposits.'

"This is a subject of vital interest to every banker and we can see no better way in which your splendid Journal can continue to be of excellent service than to present to the bankers such forceful and authoritative discussions from such leaders as Mr. Mitchell and Mr. Hawes."

The Origin of "Two Bits"

THE cover illustration for the May Journal, from an original painting by Walter de Maris, deals with the origin of those expressions, "Two bits," "Four bits," etc., once quite expressive as a statement of price, or a measure of money value, but rarely heard now, and even then only as a provincialism.

Like most of its predecessors it has an historic value.

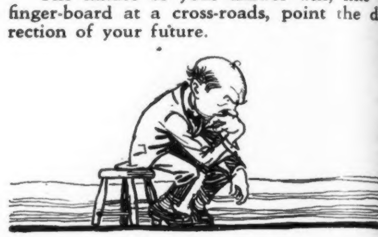
The Answer

ONE of our correspondents wants to know by what process of deduction we arrive at the conclusion that a bank employee would care, after his day's work to read banking literature, which the correspondent calls "shop talk," in his home.

In answer to that we quote the following from a statement we made to bank employees some time ago:

"What Do You Do with Your Margin of Time?

"The nature of your answer will, like a finger-board at a cross-roads, point the direction of your future.



"Hard, intelligent, conscientious work at your appointed task day by day constitutes the foundation of business success; but that alone does not assure business success. Undoubtedly you know many persons who have worked faithfully all their lives and yet have made practically no progress. They are the people who did not recognize the value of their margin of time.

"What you do with the margin remaining to you, after your routine is done, is the thing that really counts in making progress.

"You may let it run idly away to waste in an excess of frivolous pleasure, or you may use the margin to add to your education and to your commercial equipment.

"You may use your margin to develop mentally—conscious of the fact that he who grows in understanding is always sure to progress professionally and commercially."

Another answer to that question is the American Institute of Banking with its 35,000 active students most of whom are employed in banks, and—by the way of good measure—attention is directed to the immense movement in adult education. It is estimated that the number of adults in the United States who are acquiring more education is 1,200,000.

The Pursuit Plane

THAT the aeroplane may be effectively used sometimes in capturing bank robbers was demonstrated in Wisconsin. The Farmers' Savings Bank at Palo was held up by three men. Paul Shaw, of Cedar Rapids, a member of the Vigilante Organization, upon receipt of the notification of the robbery, although many miles away, immediately got into his plane and took up the pursuit.

"He located the car," says Secretary Frank Warner's report of the event, "in which the bandits were escaping, trailed it and one man was captured and confessed."

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